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East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2360

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CONTENTS

PRICE ADJUSTMENTS DISCUSSED BY PRICE OFFICE OFFICIAL

Prague PLANOVANE HOSPODARSTVI in Czech No 8, 1982 pp 18-26

[Article by Eng Vaclav Janecek, Federal Price Office: "On Some Methods of Streamlining the Price System"; portions within slantlines in boldface]

[Text] The key goal of economic policy set by the 16th CPCZ Congress is to maintain and improve the already attained living standard and social securities of the population in accordance with the results achieved in the development of the national economy. Due to the increasingly difficult external and domestic conditions of economic development, the fulfillment of this task requires a much more consistent implementation of the long-term strategy of high production efficiency and quality of all work.

The requirements are known: to carry out effective structural changes; to make rational use of production potential; to make more economical and more effective use of all resources, particularly by speeding up and maximum application of scientific-technological achievements, and by greater participation of our economy in socialist economic integration and international division of labor. Coping with these tasks calls for changes in the mechanism of management of the national economy. This role is performed by the Set of Measures which, among other things, emphasizes and ensures paying more attention to economic criteria and motivation in the decisionmaking processes in all areas of the planned management system of the national economy.

Increasing Effect of Prices

The area of prices must also play a positive role. Prices make possible and simultaneously objectify the valuation of inputs and outputs of processes taking place at the various levels of the national economy which is the essence of measuring their economic effectiveness.

/The Set of Measures asks the price system to intensify its two basic economic functions: to measure effectiveness and to economically affect (stimulate) its further increase at the same time. The price system should provide correct and also demanding criteria, norms, stimuli and motives for optimum decisionmaking by management subjects in the economic sphere, and thereby contribute not only to the conservation of all

production factors, but also to the effective processing of materials used in the production process, to balanced production and consumption, and also affect other related economic phenomena./

The basic way of making prices economically more effective is to bring them closer to the socially necessary cost. A successful solution of fundamental material problems of the national economic plan makes it necessary for the state, in order to speed up scientific-technological progress, to increase economic pressure on reducing costs, to ensure planned harmony between resources and needs, and so on, to allow deviations (differentiations in the profit rate, application of price relations, use of incentive systems) of prices from the development of value. The effect of these deviations designed to help attain the objectives of economic policy is significantly increased if the decision on them is made sufficiently in advance and if they are closely linked to the plan targets, economic tools and system of monetary incentives.

Effectiveness of Foreign Trade and Export Criteria

Under the conditions of the Czechoslovak national economy (its great dependence on the import of virtually all basic raw materials and a considerable proportion of food, and export of products of processing industries, that is, the exchange of national labor), the increase in effectiveness--apart from the factors in intensive economic growth--is affected by the effectiveness of imports and exports. For this reason, we should not see the goal merely in increasing import and export volumes, but also in importing--under the best possible economic terms--not only the necessary raw materials for our industry, but also such materials and products whose foreign prices are below our domestic wholesale prices. Vice versa, we should primarily export those products in regard to which the price ratio is inverse. Only thus can we mitigate the consequences resulting for our national economy from the increase in foreign prices of imported raw materials, energy and food.

The conditions of international division of labor, particularly in imports, have significantly deteriorated for our national economy within the last decade. This unfavorable process persists, or rather continues, at the beginning of this 5-year plan, too. It reflects not only the price increases on world markets which began toward the end of 1973 and at the beginning of 1974 (the price level increased approximately 3.5-fold primarily due to the sharp increase in the prices of fuels, energy and raw materials) but also the separation of gold prices from currency values (an approximately 20-fold increase in the price of gold) and of crude oil from the prices of products (approximately a 10-fold increase in the price of crude oil).

The increase in prices of imported goods, together with the aggravated conditions of obtaining raw materials, slows down both the development of industry and production of the national income. The way out of this situation lies in the neutralization of these negative impacts of external relations

economic relations by the systematic implementation of scientific-technological achievements and economy measures in the utilization of imported raw materials, and also by increasing the value added by more effective processing and also in exports.

Unquestionably, a substantial portion of these negative impacts must be compensated, in accordance with the worldwide trend in prices, by higher foreign prices for our exported products. This urgent requirement follows from the fact that the increases in world prices of material inputs are also gradually reflected in the prices of products of processing industries on the world markets. Within this compensation, we must not only reflect the trend in prices of foreign-made end products in our existing product mix, but also achieve good price relations in new export products by their high technical standards, quality and systematic increase in the effectiveness of the export structure. This procedure should result in reducing the cost of obtaining foreign exchange and in strengthening currency coefficients used for calculation of prices of imported goods.

/The planned transition of our national economy to intensive development must, therefore, take into account the fact that the promotion of dynamism and stability of future economic development will take place in the increasingly sharper confrontation of our national economy with the changes in the world economy./

How successful we have been in this confrontation and what remains to be done is brought out by the comparison of social labor expended on production (domestic wholesale price--VC) with the internationally attained level of cost (foreign price--ZC). The foreign price fetched by the exported goods thus essentially verifies social usefulness (effectiveness) of national labor expended. By expressing a ratio between these two values $\left(\frac{ZC}{VC}\right)$ we obtain the so-called "export-margin indicator" (rozdilovy ukazatel--RU). Although a number of additional indicators are used for determining the effectiveness of foreign commodity exchange, it must be said that the export-margin indicator is one of the most commonly used. It is used both in foreign trade (that is, in exports and imports) and in production. If RU exceeds 100 (that is, ZC is bigger than VC), export (production) is regarded as effective (while in imports the opposite is true).

Naturally, the reliability of determining the degree of effectiveness of export (import) and of domestic production is affected essentially by two factors:

--Correctness of valuation of Kcs receipts (cost) on the basis of FOB Czechoslovak border prices in export (import). This involves in the first place the rationality of currency-conversion rates in comparison with the actual cost of acquiring foreign exchange in export to the territorial area in question (SZ [socialist countries], NSZ [nonsocialist countries]) or representativeness of the respective foreign market, conditions of foreign operation (standard of merchandising of OZO [foreign trade organization], trade and political barriers) and so on;

--Rationality of wholesale prices used (effective).

Significance of Wholesale Prices in Evaluation of Effectiveness

As to wholesale prices, we can say that the above indicator of export effectiveness (RU) will correctly express the effectiveness of foreign commodity exchange if the wholesale prices used reflect the socially necessary cost of production and distribution of products exchanged, that is, if the indicator is computed on the basis of rational wholesale prices--reflecting average, objectified costs and profit rate in the sector--which provide for expanded socialist reproduction, a rationally functioning financial credit system and a system of monetary incentives for the organizations.

The application of scientific-technological achievements and of other economy measures in the reproduction process changes both internal economic conditions of production and external conditions of production (development of foreign prices and reproduction cost of exports). This affects the cost basis of the system of wholesale prices and causes deviations of socially necessary costs from the effective wholesale prices. Systematic adjustments of wholesale prices (price levels, price relations) to the socially necessary cost is the objective of streamlining of the wholesale prices system which restores its functionas a criterion in the national economy.

/A fundamental measure in this direction was the comprehensive revision of wholesale prices as of 1 January 1977./ It involved a reassessment of all production factors (raw materials, labor, capital assets) as well as a number of additional adjustments in the price structure (objectification of cost, profit and introduction of a price of the production type). The prices of domestic and imported raw materials were radically revised. In the basic set of raw materials, prices on the average increased approximately 52 percent, which was reflected in the material inputs at the related technological levels. At all these levels, possibilities were explored of lessening the impact of price increases at the expense of excessive profit (derived from the planned reduction of production costs). Due to the varying changes in the price levels in sectors, branches, groups and of individual products (according to the intensity of the price effect and the possibility of mitigating it), the general price level in the national economy was essentially preserved despite the above price revision. Moreover, not only the price structure, but also the value relations in planned management were put on a more realistic basis.

The streamlining of the price system, however, did not end with the comprehensive price revision. It continued through further changes in wholesale prices during the 1977-1980 period which were carried out in the plans of price development, through operative changes outside of these plans and also by measures in price setting and price incentives. To sum up the development, we can say that during the above period:

--Changes in wholesale prices during the 1978-1980 period affected products worth approximately Kcs 215 billion and amounted to an increase of

approximately Kcs 20 billion in the price level (including the increase in wholesale prices of coffee, cocoa beans, precious metals as well as gradual increases in VC of fuel and energy amounting to a total of Kcs 16.2 billion) and their reduction by approximately Kcs 2.5 billion;

--Price incentives designed to promote higher technical standards, quality, fashionable innovations and luxury products totaled approximately Kcs 6.6 billion during the 1977-1980 period (including preferential pricing amounting to Kcs 7.2 billion and punitive price reduction amounting to Kcs 636 million).

The system of wholesale prices with which we started the Seventh 5-Year Plan was updated for about two-thirds of the production of the national economy through a one-time revision of wholesale prices during the 1981-1982 period. Within this revision:

--/The prices of all imported and domestic fuels, energy and of some other important raw materials were increased by more than 50 percent. Due to the higher purchase prices for agricultural products gradually raised prior to 1982, the price level of inputs for the food industry also significantly increased;

--/Despite the measures designed to cushion the impact [of price increases] at the expense of the excessive profit of the processing industry (which absorb approximately one-third of the increase in the price of material inputs) the general level of wholesale prices increased 9.8 percent. There are considerable differences between price increases in individual sectors, branches and products which can be characterized as follows: while the average increase in wholesale prices of deliveries for manufacturing consumption amounts to 12.5 percent, that of deliveries for final consumption is only 7.2 percent./

The revision of wholesale prices of fuels, energy and some raw materials, and its projection into the wholesale prices of industry, construction and transportation altered the basic price relations in the system of wholesale prices and also the position of individual sectors in the national economy. It has affected the indicators of the national economic plan, budgets of construction projects, central price regulation of imports and general criteria of effectiveness in domestic production and foreign trade.

The one-time revision of wholesale prices at the beginning of the Seventh 5-Year Plan must be regarded as a necessary step toward the streamlining of the price system which is in fundamental agreement with the effort to create realistic and demanding economic criteria for further development of the national economy. This streamlining of the price system will continue in the future. The 16th CPCZ Congress formulated this task as follows: "To continuously update wholesale prices in accordance with the actual trend in the purchase cost of imports and of domestic production while exerting systematic pressure for more economical and more effective use of fuels, energy and raw materials in [manufacturing] consumption at the same time."

The price system thus faces an exceedingly complex task whose fulfillment will have implications for and significantly affect other areas of the planned management system. In the future, we must not allow the price system to lag behind, to separate it from the development of conditions in production and sales. On the contrary, the rationalization of the price system must be regarded as a permanent process which must be carried out continuously. This naturally lays big demands on all tools of state price control (planning of and changes in prices, price setting and incentive prices). It is not the subject of this article to describe in detail the approaches to the implementation of this task which are to be worked out and incorporated in the practical methodological and organizational procedures during this year, and included in the program of price updating beginning in 1983.

It is certain, however that:

--/The transition to the continuous updating of the price system can be carried out gradually and must be closely linked to the plans for the gradual improvement of the price system as well as to the conditions which will be created for this procedure in other areas of the planned management system as well;

--/Realistic adjustments of prices to changes in the economic conditions and material needs of further economic development is the basic road to restoring the effectiveness and effect of prices and all their functions in the national economy./

Nevertheless it is necessary to realize that even under these conditions there will not be automatism between the changes in socially necessary cost and prices, between the development of prices of inputs and outputs for a number of reasons. Let us mention at least the fundamental ones:

a. /The prices of inputs will be based on the actual cost of their imports or of domestic production./

The realistic nature of actual cost must be interpreted in the following way: the setting of wholesale prices must take into consideration both the actual costs already incurred and their permanent tendencies (that is, their future development which can be realistically estimated), and must maintain a certain appropriate excess of the wholesale price level over the level of actual cost. In determining the cost of imports, it is extraordinarily important that the computation of actual cost take into account the anticipated development of foreign-exchange conversion rates;

b. /It is not necessary, desirable or possible to project (promptly) every change in cost into prices./

It is rather complex to give a general answer to the question as to what time lag (interval) between the development of production cost and price stability is admissible. This tolerance must always be judged in accordance with specific circumstances, namely, what will be the economic effect of the

price in the area of production and consumption. It must be anticipated, however, that the changes in socially necessary cost, up to a certain point, will not result in price revisions or setting new prices. Moreover, this tolerance may vary according to the nature of products (raw materials, semifinished goods, products).

In a number of instances, it will not be desirable to project every change in cost (inputs) into the prices of the related processing stage. On the contrary, the congress directive makes it clear that price changes must be combined with more intensive pressure on more economical and more effective processing of raw materials in the future.

Finally, despite the interest in prompt projection of changes in the external and internal production conditions and sales into the related prices at all processing levels and group of prices, this projection will take some time before the new prices are determined, verified, approved, published and practically applied. Apart from the fact that price revisions are laborious and expensive, it is necessary to realize that price in the planned economy does not work in isolation. It is the foundation stone of value planning, and permeates all its tools (intraenterprise price catalogues, consumption standards, calculations, indicators of the national economic plan, state budget, budgets of construction projects and so on). It has not been simple so far to project the impact of changes in wholesale prices into these areas;

c. /Also in the future, prices will be based not on the individual, but on the average costs incurred by parallel producers in securing planned production, and in socially desirable cases will deviate from the socially necessary cost./

For this reason, even a significant change in individual production cost which will not substantially affect average production cost in the sector will not result in a price revision. There will also be continuation in the rationalization of price relations, in incentives for domestic social priorities, particularly high technical standards and quality, and also in the effective alteration of the product mix. More attention will be paid to the effectivness of products exported to demanding foreign markets.

This deferring of price changes, their deliberate nonapplication or deviation or their application ahead of schedule (if the trend in perspective cost is taken into account) thus gives rise to a situation which can more or less distort the indicators of effectiveness related to the effective wholesale prices.

Calculation of Projected Prices and Their Application

What has been said of the realistic possibilities of carrying out corresponding changes in wholesale prices and of the much more significant changes in the actual cost of imports during the recent period led to the idea /to build into the system a new tool in state price control which would provide comprehensive information on the scope of deviations of necessary costs from

the effective level of wholesale prices./ The Federal Price Office started to calculate projected prices as early as 1975. Naturally, they cannot substitute for the above-described basic way of a realistic updating of prices, but:

--can provide somewhat more accurate criteria of production, exports, savings, social contribution and so on for control of effectiveness in various areas, and

--may serve as one of the background documents for the decision on the inevitability of price changes.

For this reason, their further processing can be regarded as an integral part of the system which ensures further rationalization of the price system and is an important precondition for the improvement in other areas of management. In this sense, the Set of Measures instructed [the Federal Price Office]:

--/To intensify work on the calculation of projected prices reflecting the actual cost of imports, valuation of other production factors (production assets and labor), costs and so on;

--/To make use of these data, particularly when studying the levels of efficiency of work in establishing plan objectives and in the area of monetary incentives./

It is important to make these calculations known to a much larger number of interested workplaces and to work them out in more detail according to their needs. This is also the purpose of this article, in whose subsequent section we shall concentrate on the brief description of the essential method of calculation of projected prices and on their potential improvement.

The calculations of projected prices make use of the structural price model in the sector and of more advanced computers which make possible a comprehensive projection of input price effects and determination of their impacts on the entire price system of the national economy. They are aggregated by the national economic sectors for 408 production branches in accordance with the uniform classification of sectors and products.

/By projected wholesale prices are meant the indexes of changes in wholesale prices in individual sectors and branches which in their basic calculation indicate how the price level in sectors and branches would change if the average import prices during a certain period were projected into the material costs included in the prices, and prices were revised in all connections, while maintaining the present profit rate, economic tools in the area of foreign trade, and taxes and levies existing in the present system of wholesale prices, that is, other items in the price calculation./

Simultaneously with these sectorial and branch indexes, projected prices are calculated according to the directions in which products are used, that

is, deliveries for manufacturing, personal and social consumption, capital investment projects ane exports.

The building of the organizational models for sectors created prerequisites for calculating projected prices also by individual industrial sectors and VHJ [economic production units].

Apart from the use of calculated projected prices for the objectification of the price system, the related calculations are made which make it possible to objectify the level of the export-margin indicator (rozdilovy ukazatel vyvozu) (or reproduction costs) by the national economic sectors and production branches. These /projected export-margin indicators/ indicate how their level (actual, planned) would change, if the effective wholesale prices were adjusted to the level of calculated projected wholesale prices. For purposes of this article, the following typical comparative calculations can be listed (in percentages):

	Calculation of projected VC prior to revision December 1976	Changes in VC resulting from VC revision on 1 January 1977 (according to price lists)	Calculation of projected VC after VC revision May 1978
Change in VC level for the national economy	+ 8.7	- 0.5	- 1.2
Changes in VC level according to the use of production:			
--personal consumption	+ 6.9	+ 1.7	- 0.2
--social consumption	+ 7.5	- 4.0	- 0.7
--investments	+ 8.6	- 10.2	- 0.7
--exports	+ 7.3	- 2.5	- 1.0
Distortion of reproduction costs of export to:			
--socialist countries	+ 8.9*	.	- 1.5**
--capitalist states	+ 9.9*	.	- 1.2**

* The reported export reproduction costs were below the wholesale prices as of 1 January 1977.

** The reported export reproduction costs were higher than actual contracted foreign prices of imports.

These calculations show how undervalued (8.7 percent), due to the higher prices of imports, the wholesale price system was prior to the comprehensive price revision, then the results of revision reflecting the effect of price-increase mitigating measures (0.5 percent reduction of the wholesale price level), and finally also the effect of inclusion of projected import price level in the revised wholesale prices as compared with actual import prices in 1977 (to cope with the further development of foreign prices of imports, a reserve amounting to 1.2 percent of the general price level was set up during the Sixth 5-Year Plan).

What is valuable in these calculations is the fact that they afford a more detailed structural view of sectors, branches, directions of use, ministries and VHJ. As already pointed out above, the basic objective of calculations of projected wholesale prices was to demonstrate:

a. To what extent and for which areas the system of effective wholesale prices is or is not satisfactory from the standpoint of the price level (of purchase costs) which our economy actually pays for imports of raw materials, fuels, energy, materials and products both from the capitalist and socialist states. The conclusions are then used for the preparation of necessary price measures, their optimum scheduling particularly in the plans of price development;

b. What increase in the price level would occur, if the state price control were not to regulate the projection of the boom or inflationary development of foreign prices of raw materials and products through the central price regulation of imports, and this development were to be reflected without restraint in our economy. On the other hand, this method can serve as the basis for the procedure employed in price regulations, when the possibilities are explored of mitigating the impact [of higher prices] at the expense of excessive profit at all levels of the processing industry, and the goal is the stabilization of minimization of increase in the wholesale price level, particularly in the area of final production. The conclusions can be used for measures within the central regulation of import prices;

c. What related pressures would be exerted, if the increases in import prices were not controlled, on the system of wholesale prices in individual spheres of use of end products or in other price groups, particularly in the area of retail prices (personal consumption), economic tools of foreign trade (export), in further reproduction of the price system (through investments). The conclusions can be used for exploring the possibilities of mitigating the effect of price increases in individual sectors and branches.

Similarly, the principal purpose of calculating projected reproduction costs and export-margin indicators is to demonstrate:

--How the reproduction costs of exports actually deviate from the effective conversion rates and what measures should be enacted in this respect;

--What the actual margin indicators and reproduction costs of exports in the respective aggregations are, how the effectiveness of structure can be evaluated more accurately in accordance with them (both in planning and operative management) and how the existing rules (criteria) of monetary incentives could be more effectively linked to the tasks in export effectiveness.

The results of these calculations are stimulative. The calculations of both projected wholesale prices and projected reproduction costs of exports can serve as the basis for measures in other areas of management. It is, therefore, essential that these calculations should be used in the future not only

by the price agencies, SPK [State Planning Commission], SBCs [Czechoslovak State Bank] and FMZO [Federal Ministry of Foreign Trade], but also by other central agencies (FMTIR [Ministry of Technological and Investment Development], FMPSv [Federal Ministry of Labor and Social Affairs], central sectoral organs), OOZ, VHJ, research centers--not only for operative management, but also for the preparation of long-term measures.

Calculations Can Be Improved

The system of projected prices can be further improved in accordance with the specific needs of users. It is, for example, possible:

--To make additional variant calculations, particularly of projected wholesale prices, export-margin indicators and export reproduction costs, separately for individual territories. To assume that everything is imported at the prices paid only on the capitalist markets or at the contradt prices used among the socialist countries only, and then to objectify the limits in effectiveness (increase in FOB prices, RU) for OOZ and VHJ. Differently adjusted conversion ratios must, of course, be taken into account.

It is likewise possible to make variant calculations not only from the standpoint of purchase prices of imports, but also from the standpoint of domestic output and production, that is, to take into account subsidies given in individual sectors, to assess differently other production factors as well (for example, labor) or to combine these variants in different ways;

--To make calculations in various aggregations, particularly from the organizational, but also products, aspect (in addition to the sectorial and sectorial-organizational models, products models also are being developed);

--To make calculations with the inputs at different times, that is, not only in relation to the actual imports in the past, but also to the contracted, planned prices of the current year, to medium-range and long-term forecasts. In addition to the already mentioned typical areas of use (preparation of price measures, measures affecting the structure of external economic relations), the projected price forecast could be used also in capital investment and technological development, in assessment of calculated economic contributions, setting the price limits on their outputs and so on.

These calculations also provide information on the change in the assessment of material consumption, and on the share of material cost in the price. These data can be used for processing of foreign-exchange calculations, particularly in those comparable business transactions where due to the high degree of cooperation and complexity of products with a very heterogenous material structure it is difficult to process foreign-exchange calculation reliably and rationally.

/The streamlining of the price system will be of primary importance for further improvement of the planned management system. It appears, however, that for a number of reasons effective wholesale prices will deviate from the socially necessary cost and that heterogenous aspects and requirements of other areas of management can hardly be satisfied with the effective price only. There are well-founded reasons for making parallel, systematic, variant calculations of projected prices which will be used not only as background, operative and analytical material, but also as indispensable data for conceptual work, for determining and evaluating plan fulfillment also in the area of monetary incentives. The processing of these calculations is rather laborious. For this reason, their further elaboration will be directly linked to the anticipated scope and method of application by their users./

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SELECTION PROCESS FOR INDUSTRIAL MANAGEMENT POSITIONS CRITICIZED

Bratislava PRAVDA in Slovak 9 Nov 82 p 1

[Editorial: "Influence of Party on Economic Management Staffing"]

[Text] Further intensification of party influence on the economy is one of the most important ways of systematically furthering the intensive development of our economy. This applies many times over to one especially important area--to industrial management staffing. The high demands placed on management work and the constant increases of these demands compel communists in the various elements of the management sphere to reflect on whether their basic organization has really done everything possible to raise performance standards of economic staffs. Preparations for the annual membership meetings of basic party organizations provide the occasion for not only thinking about this, but also increasing activity in this area.

The annual membership meetings will also adopt, among other things, the main agenda of party organizations for the upcoming period. The substance of these tasks is being formulated now during the time of preparation for the annual deliberations when, during committee meetings, in party groups and preparatory collectives we evaluate how successful or unsuccessful we were in carrying out the resolutions of the 16th CPCZ Congress. It is precisely while preparing the annual meetings that we will see whether communist members are sufficiently critical and self-critical in approaching the results of work so far and whether they have the proper measure of determination. That is why the basic oranizations of the various management elements also must even now realize that the main efforts of communists at these work centers should be directed toward improving management, making it more efficient, overcoming certain improper administrative procedures and substantially raising the effectiveness of staff work. In this connection, we must set up procedures to raise the standards and personal responsibility of management personnel in taking care of societywide needs and consolidating work discipline. It is important to look at these tasks specifically and to figure out how communists, especially those holding responsible positions on industrial staffs, are fulfilling the tasks entrusted to them, how they are reinforcing party, state and economic discipline, high principles, considering new ideas, using initiative in creative approaches and determination in overcoming bureaucratism, stereotypes, conservatism and tolerance of shortcomings. A responsible, objective and

matter-of-fact approach to these problems is an essential requisite for consolidating party influence on the economy. Let us take a closer look at the attitude and activity of a party organization at, for example, the middle management level. General management sometimes works not far from the main plant but often tens or even hundreds of kilometers from the other enterprises and plants of the VHJ [economic production unit]. These are, however, distances which should neither primarily influence the style of work nor the level of management, even though this factor often leads to preference in administrative methods. Important aspects to consider in evaluating the style of work are whether they employ personal contacts in management work with subordinate elements, whether employees recognize people and situations in the factories directly and whether they personally go about solving problems and promoting the requirements of the party's economic policies.

The guage of critical demands on the actual work of party organizations in economic staffing is their attitude toward the development and higher qualification of the party's membership base. In this connection, we have found that incorrect views have become rooted in some general managements. These stem largely from ignorance or from inconsistent application of the Guidelines of the CPCZ Central Committee Presidium for Further Improving the Performance of Party Organizations in Central, State and Social Bodies and Institutions, dated October 1977. These guidelines clearly require "raising the quality of party ranks by more organically linking overall implementation of cadre policy with conscientious cadre work and by selecting party members already specially and politically prepared and elevating them from lower level management, enterprises and work centers." This method, above all, must be used to strengthen direct party influence in decisive management units which hold key positions on economic staffs. Contrary to this, the practice of general managements and basic party organizations which are active on their staffs is often an effort to go a different way, a way offering less resistance. Instead of identifying and patiently and conscientiously recruiting capable people from lower management echelons, they often stubbornly attempt to set up cadre reserves primarily from their own ranks. They shut themselves off within themselves and think that the strengthening of party influence is some kind of internal affair. This kind of practice leads to an ostensible tension between the requirements and possibilities of accepting new party candidates and members. It manifests itself as an objective difficulty, as a reliable argument. In fact, however, it overlooks the pertinent guidelines of the CPCZ Central Committee Presidium that they associate the building of cadre staffs with strengthening party influence only from their own resources.

The argument, attractive at first glance, that the management staff is trying to build from "its own" promising young people is, in fact, hard to defend. After all, in practice that means filling and building the economic management staff with inexperienced or less experienced people, often graduates fresh out of college. They often say about this practice: You know that in other work areas criteria are different. One who proves himself in one place will not necessarily also do so in general management." This is strange logic, the more so when one hears it from the deputy chairman

of the CPSL Basic Organization. It can only be termed as misunderstanding the correctness of the CPCZ Central Committee Presidium guidelines on further improving the performance of party organizations in management bodies. The apparent logic of the argumentation given is, however, mistaken, not only because it is contrary to the requirement of the guidelines, but also because it causes considerable cadre problems in building management staffs. After all, it is obvious that management staffs cannot be built up from graduates fresh out of school who are to gain their experience immediately as members of highly placed managing centers. A person must first work on various lower levels in order to be able to become a supergrade. And that only if he proves himself to be versatile.

Attempts to follow the easier path of less resistance has often been justified this way: "We would have filled positions on the management staff by people from lower levels except that this has not proved to be a good idea. Many come from enterprises to general management with exaggerated illusions about this work and when they come face-to-face with reality they are disappointed and leave." Views like this only show that someone somehow created these exaggerated illusions and that "with honeyed words they catch the birds." Furthermore, in such a case the question properly arises, why do they direct their cadre work at these management bodies toward those who want to attain higher levels of management, why not on those whom this high level needs? After all, the criterion is not whether you can get someone on to the management staff easily but whether this staff really needs him. And the person on a lower level, no matter how much they need him on the branch staff or at the VHJ, can be identified and fought for only if one knows the people in enterprises and by long-range working with them.

Properly linking cadre work with strengthening party influence on middle levels of management cannot be done without difficulties, easily or without conflicts. Here is what happened at one ministry--they found a capable worker at a building enterprise who had the qualifications for a job on the branch management staff. Such employees are a rare find, all you have to do is count how many science candidates are working in enterprises these days. After much persuasion, when they finally succeeded in getting the selected comrade, upon leaving his enterprise the CPSL CZV [expansion unknown; ZV possibly "factory committee"] prevented him. They prevailed on him saying, "We took you into the party, trained you and if you leave it is a sign of ingratitude." Such narrowminded, parochial or one could even say enterprise-selfish opinions, do also exist. As though it were not in the interest of the enterprise sphere, the enterprisewide party organization on the lower level, to strengthen the cadres of the staff immediately above. It should have been not only in their interest, but their obligation. It is true that staffing industrial management bodies with communists from the enterprises who are politically and technically mature does involve certain personal deterrents. A person who has attained a high position in his enterprise is esteemed and recognized in his surroundings. Often it is hard for him to leave the environment in which he has grown up, to leave his friends and acquaintances and "make a start" somewhere else. But it is precisely in overcoming these deterrents that he clearly demonstrates his social commitment, his political maturity.

On the eve of preparations for the annual evaluation of the work of communists, we are not at all avoiding the main point if, in connection with strengthening party influence on management staffs, we speak mostly about cadre work. This is because it is precisely in this area that viewpoints and opinions are often distorted, especially under the guise of being "practical," "rational" and "passable" and, one must admit, sometimes even as apparently acceptable solutions to problems.

8491
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IMPORTANCE OF CYBERNETICS FOR ECONOMIC STRATEGY DISCUSSED

Greater Flexibility in Planning

East Berlin DIE WIRTSCHAFT in German Vol 37 No 11, 4 Nov 82 p 16

["Excerpts" from address by Prof Dr Kelmut Koziolek, director, Central Institute for Socialist Economic Management, SED Central Committee, to the Seventh Scientific Conference on "Mathematics and Cybernetics in the Economy" held 26-29 October 1982 in Halle: "Mathematics and Computer Technology in the Service of Economic Strategy." A translation of the article by Dr Lassmann cited in footnote 2 follows this article]

> [Text] The Seventh Conference on "mathematics and Cybernetics in the Economy" was held in Halle 26 to 29 October 1982. Professor Koziolek delivered a widely acclaimed keynote paper before many participants from the economy and academic institutes of the GDR and other socialist countries. Excerpts of his talk are reprinted here.

Mathematical knowledge and its practical social applications have always been fundamental for grasping the regular correlations in nature and society. Effective application of mathematics and computer science is especially important today when the greatest demands are being placed on us as we continue to shape the advanced socialist society of the GDR, master the scientific-technical revolution and manage the complicated tasks of international socialist cooperation. They are becoming indispensible tools for the realization of the program defined by the 10th SED (Socialist Unity Party) Party Congress as our economic strategy for the 80's. The main idea of this economic strategy can be summarized as the attempt to gain economic effectiveness through modern science and thereby to respond constructively to the changed demands of the 1980's, under which the primary goal continues to be pursued in its unity of economic and social policy. It is important to emphasize that we must take into account more than the factors impeding the conditions of reproduction. Our economic strategy rests essentially on the fact that the possibilities of producing economic growth by scientific-technical progress have increased in past years and will continue to increase. The development of such key technologies as micro electronics, robotics,

electronic controls and data processing demonstrates clearly that there is real worldwide acceleration of scientific-technical progress. And mathematics and computer science are playing a major role in this.

Instruments for Analysis and Decision Planning

The execution of our economic strategy emphatically requires the application of modern scientific methods in planning and decision making. Decision situations are so complex today that they are hardly manageable in traditional ways. With scientific-technical progress, the needs and demands are changing more rapidly and the structure of production is being transformed in a shorter span of time. It is precisely this problem that confronts us so acutely at the present time. With deliberate and thoroughly calculated decisions, management must react quickly to present and future situations. The role of economic decisions as the link between knowledge and action was aptly expressed by the Soviet expert on management, Schorin: "The decision of a manager can result in either a profit or a loss of millions of rubles. The first is possible only if, out of many plausible ones, the best decision was identified. One must understand how to find that one."

It can be illustrated by several examples to what extent the realization of our economic strategy increases the demand for mathematics and computer science, and indeed even invites creative achievement in this field. The first is the use of mathematics and computer science in science and technology. We need mathematics and computer science, the application of modern econometric methods for construction, for static calculations. We need computer supported data banks for research and development in energy and materials. We need to be able to calculate process sequences and to provide for the optimal layout of technologies. Mathematics and computer science can also be used in managing the processes of science and technology. How else can the labor of thousands of workers and the extensive material and financial resources be coordinated efficiently and objectively for setting and achieving high goals; how can favorable times and short deadlines be met, and the wide application of effective solutions be implemented?

I believe that the Carl Zeiss Jena Combine serves as an example in this respect. For a long time they have been using a system that enables them to make a balanced, high-quality research and development plan, promptly and with constantly up-dated information for the management of the total process. This goal was attained gradually through an EDP-project and through the integration of research and development planning into the combine's total system of long and middle-term planning. Critical path methods are primarily employed. The EDP-system connects the time sequences of the individual theme elaborations, indicates their expenditure and contains precise data on work assignments, important auxillary partners, contractors, beneficiaries and users. This offers possibilities of an overview of the balance of scientific-technical work in the year to come and knowledge of critical areas needing encouragement and support.

The years-long work with the EDP-project has made it possible to apply normatives consistantly even in scientific-technical work and thereby to obtain a highly uniform standard for all scientific-technical areas. Weak spots in research designs can be detected in time. One can take steps to deal with jeopardized areas. Representatives of many combines are thoroughly informed about this project. But there are still very few combines putting this knowledge to use.

The use of mathematics and computer science in lowering consumption during production is a second example. An important way of decreasing the consumption of energy, raw materials, and supplies in production is the significant reduction of transport costs. Along with this, lower material outlays go together with cost reductions, reductions and redemptions on imports, expanded opportunities for economies in use of materials, and greater refinement. Significant results were achieved in the reduction of transport cost by optimizing the transport and delivery arrangements. Numerous examples of this were mentioned at a colloquium[1] held early this year at the SED Central Committee. Of course, we must be aware that no matter how significant the optimization of delivery and transport arrangements is, even greater effects will result of the transition to optimization of both production and transport in our economy.

To Better Control Intensification

And thirdly, the use of mathematics and computer science is an important condition for the scheduled increase in efficiency, a key point in the economic strategy. That is also to be seen in the optimization of production plans in factories and combines. Optimization calculations are one of the most important methods of maximally increasing the efficiency of production under both fixed and changing conditions. In the GDR we have significant experience above all in optimizing the annual production plans. But now we face novel conditions for using production-plan optimization. Production changes, retail changes, rapid reaction to market demands and, indeed, great flexibility in general require that we optimize the production process to a much greater degree--not just for the year, but within the year as well. Only with the aid of optimization calculations will we be able to actually manage these dynamic processes. It is of great importance for the formulation of the plan that everywhere possible it is supported by the production-plan optimization or other optimizing calculations for attaining the intensively expanded reproduction program.

The Complex Method in plan optimization incorporates the state-of-the-art, and has thus become a necessity today.[2] One of the chief directions in the use of mathematics and computer science is in the perfection of management planning in the national economy, in combines and factories. We know that

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[1]See Wirtschaft No. 2, 1982, pp 5-9.
[2]Dr Lassmann will report on Complex Method in a later issue.

one of the greatest advantages of the socialist planned economy is the possibility of calculating the total national economy. This includes the total accounting, balancing and budgeting of the national economy. In improving the economy's balance, the emphasis presently lies in ensuring the growing integration within production and between production and foreign trade. The integration balance has shown itself to be an especially suitable instrument for this purpose. Its results help to formulate an economics-based, effective foreign-trade and production structure. The most significant economic proportions thus become more reliable.

Further work must be done on developing this planning instrument.

At the fourth conference of the SED Central Committee, the reserves of the greatly expanded reproduction plan were discussed from the viewpoint of the economy. We are aware that we must learn to control coherently the entire cycle of greatly increased reproduction in planning, management and economic accounting. It is necessary that we employ more than before all pertinent scientific knowledge, methods and disciplines, and develop any needed new instruments. Above all, we must avail ourselves of those methods which are uniquely appropriate to improved management of the total system, the systems approach and the description of the dynamics of large systems. Also in this category is applied systems analysis. It is currently regarded as one of the most effective methods for solving complex problems which are brought on by scientific-technical progress and frequently must be resolved under the conditions of many unknown factors and contradictory data. I am of the opinion that scientific-technical progress requires a systems-theory approach. How else are we to understand the results of structural changes, to grasp the correlations of new products and technologies, to address the question of greater refinement with total consistency, i.e., to deal with the entire complexity of these problems? Systems research is, of course, a tool intended for decision problems that cross the spectrum of responsibilities. I wish to emphasize strongly that the use of systems analysis is vital to the application of advanced scientific-technical potential, with all its problems--from planning to execution.

Where are the Main Reserves?

The main reserves in the use of mathematics and computer science for the realization of our economic strategy lie first in the proper use of personnel educated in the fields of mathematics, computer science, statistics, cybernetics, and in the full employment of their skills and initiatives. Secondly, software production must be organized and coordinated on a national scale. Thirdly, we must focus our computer potential on the modern developments of computer science and on the most effective use of local data processing.

As far as personnel, we have approximately 70,000 people. Of these, there are around 1,500 university-trained people employed in planning and programming, about one-half of these in industry. Around 6,000 of our 8,500 mathematicians are employed in production sectors, again about 50

percent in industry. To these we must add the approximately 2,500 economists with special training in mathematics and computer science. But all remaining economists have been receiving for the past ten years about 300 hours of mathematics training equivalent to that of engineering and superior in breadth to that of most natural-science programs. It is essential that this standard of mathematical training be maintained. We cannot complain of a shortage of specialists, but we must ensure that they are used properly. We think that the primary challenge in the use of this potential is the proper grouping of workers, their concentration in the economically and technically critical areas, the composition of the collective in ways consistent with its tasks, and in some cases the re-grouping of the potential. We expect from the young workers especially that they fight with commitment for new ideas and their practical application.

Now let us address the software problem. The development of software is no longer simply a problem of computer science or data processing. On this point, I would like to make an elementary observation on the role of software in modern production process. Marx emphasized that all developed machinery consists of three essentially different parts: the motor, the transmission, and the tool or work component. Today we hear about the four-member machine system. The fourth member is the information machine which consists of the information component, the software, and the mechanical component, the hardware. All software represents man's concretized knowledge about the process. The software together with the hardware and working tool can surmount the limits of human performance.

In one sense it is a matter of a use value comparable to the basic medium, which possesses the excellent quality of being contained in a very small package. Software is consequently an intelligence-intensive refinement which serves to reinforce the quality of the technical basis. When we consider that internationally the expenditure for software is now already higher than for hardware, it is clear that greater attention must be given to software in the future in order to tap out efficiency potential and to develop the necessary economic structure. We face the problem of how to organize software production. This is all the more imperative since the development of hardware and computer science will place continuing demands on us with the trend to local technology.

Mathematical Modeling Advocated

East Berlin DIE WIRTSCHAFT in German Vol 37 No 12, 2 Dec 82 p 13

[Article by Dr Wolfgang Lassmann, Martin Luther University, Halle-Wittenberg, based on paper presented to the Seventh Scientific Conference on Mathematics and Cybernetics in the Economy held 26-29 October 1982 in Halle: "Reacting Faster and More Flexibly with Optimization Calculations"]

[Text] Editor's comment: The article summarizes a keynote paper read on the occasion of the Seventh Conference "Mathematics and Cybernetics in

the Economy." The acknowledgement of the scientific and practical achievements of many scientists and professionals on this subject contained in the original version could not be reprinted here due to limitations of space.

With the merging of many factories into combines the reproductive process in these large economic units has become not only more efficient, but more comprehensive and complicated as well. As Prof Dr Koziolek demonstrated in the last issue of WIRTSCHAFT (No 11, 4 Nov 82 p 16), the need for the application of mathematics and computer science in the economy has significantly increased recently for this reason too.

Efficient mathematical models, particularly optimizing accounting, together with computer science, increase the ability of management to react to the more complicated external and internal conditions of reproduction. This makes possible

--a better organization of management and planning,

--a better content control of the economic processes and

--a more effective use of resources.

However, studies at the Central Institute for Socialist Business Management of the SED Central Committee and in the Economics Department of the Martin Luther University show that presently a very small fraction of the important industrial management decisions are prepared with mathematical and computer-science support. When we stop to consider that we in the GDR obtain savings of 4 to 18 percent by practical optimizing accounting compared to traditional methods of calculation, then we cannot stress enough the productive power of mathematics and computer science for the increased performance of our economy. The time advantage which can be achieved with computer-assisted decisions has not even been considered yet.

Example: Experiment and Dispensing Planning

A Pioneering example of what economic effects can be achieved originated in the VEB Elienburger Chemical Works, a factory belonging to the Buna Combine. Within the framework of a dissertation and a special research assistantship, the optimal experiment and dispensing planning was here solved in a new way using mathematics and computer technology. This factory, which produces special-order plastic materials (or semi-finished plastics) for its customers, has to cope with high experimental costs in finding a special dispensing formula of high quality and at an affordable cost for each customer. By combining the statistical experimental planning with the mathematical linear optimization in association with the Complex Method and by using ESER-computer technology, the research effort and the development time for finding optimal dispensing were reduced by 75 percent.

Here there were savings of 4,200 marks in experimental material for each dispensing and 7,400 marks in development costs and a total annual reduction

in material and costs of about a million marks. At the same time, the project tested the best substitution for expensive imported materials subject to surcharge with cheaper domestic counterparts. The greatest importance for the factory, however, is the enormous time savings. When it is a matter of foreign-currency contracts, it makes a great difference in the negotiations with foreign competition whether it takes 6 months or 6 weeks from the initial trade contacts to the dispensing and pricing.

These methods have been used in other operations with similar problem-solving needs and have resulted in significant economies. We mention a few: the VEB Buna Combine, the parent factory, VEB Orbitaplast Golzau, VEB Molding Works Ottendorf-Okrilla, VEB Insulation Works Zehdenick and the VEB Rubber Works Thuringen in Waltershausen.

Example: Complex Optimization of Production Plan

In the VEB-Weimarwerk, which produces agricultural machinery and employes 5,600 workers, several internship and university projects introducted a new mathematical method for complex optimization of production planning and carried it out with the ESER computer technology. Under exact observation of over 500 restrictions of work-time, machine-time and material capacities, market and cooperation conditions, the intensification focus was calculated within the aggregate complex factory operation, the optimal production plan was determined, the labor time of 22 people was saved and all time and value balances were made. Here too, the time savings effected in formulating the plan are of major significance.

For the first time in the Weimarwerk, an optimized production-plan draft for the following year was presented to the management at the beginning of May of the base year and thus an important temporal and qualitative head start was made in the work of planning. But also for recalculations on the current-year plan due to sudden changes in production conditions, the computer-based plan optimization decisively increased the reaction ability of management. Other projects of complex optimization of production planning carried out in the provence of Halle produced high economic yields. No less important are the savings obtained in projects for optimal transport planning. These resulted from close cooperation between faculty and students of mathematics and computer science as applied to the economy. Transport optimization in the provence of Halle was done, for instance, in the VdgB Dairy Combine Halle-Merseburg, in the VEB Coffee Halle (lead factory in the Combine Food and Gourmet Items), in the VEB Bakery Combine Halle, in the Meat-Processing Combine Halle, in the VEB Furniture Combine Halle, in the VEB Beverage Combine Dessau, in the VEB Transport Combine Halle, and in cooperation with the council of the provence of Halle, Office of Traffic Planning and the Halle Municipal Council.

In all of these optimizations, a saving in transport costs of from 10 to 15 percent was realized.

The application of mathematical models applies as well to the optimization of the investment plan in the VEB Pump and Washer Combine Halle, the optimal maintenance planning in the VEB Motor Works Nordhausen and the optimal production run planning for paint factories of the VEB Chemical Combine Bitterfeld and even to noise-reduction projects in the VEB Industrial Works Karl Marx Stadt.

New Demands on Mathematics and Computer Technology

The economy's new demands on mathematics and computer technology will promote the development of these tools. Of the many new and current demands made by the economy on mathematics and computer technology research, I will mention the following pertinant ones:

1. The economic strategy of the 80's is oriented decidedly to greatly expanded reproduction. In high demand are mathematical models and methods for qualitative and quantitative computation of a combine's focus of intensification, where the greatest result is achieved with the least effort.

2. The demand for internal proportionality of all elements of the reproduction process requires a complex production-plan optimization which identifies any disproportions in the entire combine, quantifies bottlenecks and directs redistributions.

3. Research must be done in the area of managing difficult model structures due to the greater degree of production interdependencies. The ensurance of the combine benefits demands a practical union of all closely related material and financial elements of the total reproduction process.

4. The formation of large economic units led abruptly to the increased magnitude of optimizing tasks. There is no need for rational solution processes of large linear and non-linear optimizing tasks and, by all means, need for algorithms for automatic evaluation of the nearly unmanageable amounts of data that result.

5. With the continuing centralization of the management function of planning, there is increased need for projects of optimal plan allotment and for projects of optimal plan runs and run-throughs for boosting the execution of the plan and in order to minimize breakdowns.

6. In the new large economic units, division of labor, specialization and cooperation are being developed increasingly. This results in declining production costs, but, along with this, transport costs are climbing. There exists here an economically important problem of optimal production-transport planning.

7. A management problem that deserves mention is that of coordinating local production decisions with the central decisions of the combine. The

management of multi-level modeling and multi-level optimizing is a high-priority task.

8. To ensure the benefits of integration and of optimal decision making in all phases of the reproduction process, research is needed in the area of model systems, of ASU-planning [expansion unknown] and of integrated data processing.

9. To overcome the differences in standards in the large economic units, mathematical-statistical models should be developed and computer processed for performance comparisons.

10. The necessity of producing new products with high use properties under tighter external conditions requires from management and planning great dynamism, flexibility and ability to react quickly. That is possible only when the casual connections of production are mathematically expressed and stored for computer use.

11. Finally, a uniform combine organization is needed, one in which there is a very clear role for the departments for operations research, organization and data centers and other offices of efficiency programs.

The chief problem of econometric modeling is the mostly simultaneous appearance of stochastic, dynamic and indistinct characteristics of economic correlations. This greatly impedes the mathematical description of economic processes.

In mathematical modeling with the Complex Method, we have tried to satisfy in a feasible way these stochastic, dynamic and indistinct characteristics. The Complex Method was developed according to the example of optimization of production plans. Production plan optimization can with few exceptions be used with the methods of linear optimization in combines and factories. Such models possess, according to Kantorowich, the following four advantages:

1. Universality and flexibility, i.e., the model structure permits many applications since it can describe very different real situations for very different economic branches and levels under its control.

2. Simplicity, i.e., in spite of its universality and great accuracy, the linear model is very simple in its technical tools, which are primarily those of linear algebra.

3. Effective computability, i.e., the algorithmic structure made it possible to write computer programs that with today's computers rapidly solve problems with hundreds and thousands of limitations and variables.

4. Quantitative analysis of the results, i.e., together with the optimal planning solutions, the model gives valuable indicators for quantitative analysis of concrete tasks and of the total problem.

With the Complex Method we solve a basic task and then immediately re-connect from the solution to the task. Thus, just after the solution of the basic task, the variables of the task are examined in order intentionally to modify the task itself in a second optimizing step. An improved plan task is then to be solved in its turn with the optimizing calculation, etc.

The principal approach in complex optimizing begins, then, with the optimizing of the first plan formulation with incomplete information. Through this solution, early bottlenecks and disproportions become visible. In further optimizing, there is feedback from the optimal solution to the plan task through computer dialogue and use of the initial solution data. The novelty of it consists in the fact that the departure point, expressed as constant in a traditional optimizing plan, is described with variable quantities in its variable segment.

This means that in contrast to the traditional production program plan, not only decision leaway in the numbers of items can be used in optimizing, but all technical, technological, and economic quantities contained in the econometric model are defined within their variable range as variable quantities, and in the subsequent optimizing step the optimal values for these quantities are calculated. In this way, an optimal modification of bottlenecks and disproportions is determined and in such a way that the greatest production effect can be achieved with the least expense of performance measures.

The directions of modification indicated by the model at the same time render visible the economically most effective intensification centers of the operation. These optimizings can be repeated as often as necessary, until all management and competition measures of the factory have been used, or the plan expectations are attained. In this way, mathematical optimizing becomes the directing principle of planning sessions.

Interrelations of the operation that have become unclear are examined for their weak spots and made intelligible with the aid of the mathematical apparatus and modern computer science. The management collective in this way gains possession of new information for scientifically based decision making in their entire area of responsibility. The Complex Method can be used in the most varied approaches to improving a planning task. The present priority lies in the exact calculation of the possibilities for intensively expanded production. The optimizing effect can be about double that of the traditional steps in determining a production plan. Of greater importance, however, is the many-sided applicability at any stage of drafting or modifying the plan.

9992
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HUNGARIAN-YUGOSLAV TRADE RELATIONS DESCRIBED

Budapest FIGYELO in Hungarian No 46, 18 Nov 82 p 9

[Article: "Hungarian-Yugoslav Exchange of Goods and Services"]

[Text] From our standpoint, economic cooperation between Hungary and Yugoslavia has a number of peculiar features. Socialist Yugoslavia is not a member of CEMA, but at the same time it has been an active participant in bilateral and multilateral cooperation with CEMA countries since 1964. The result of this is that Hungary and Yugoslavia have used essentially the same methods in the organization and development of their economic relationships -- long-range agreements, annual records and targets of goods exchanged, production cooperatives, and continual cooperation -- that have characterized bilateral cooperation among CEMA countries.

It is also a special characteristic of economic cooperation between the two countries that within its framework a direct relationship has evolved between Hungary and some of the individual republics of the Yugoslav Socialist Federal Republics. Further: not only goods but also in a relatively large proportion services are participants in the exchange; the long-range and annual agreements contain targets for both delivery of goods and exchange of services. It is also noteworthy that in every area of bilateral cooperation between Hungary and Yugoslavia accounting and payment take place in convertible currency.

The exchange of goods between Hungary and Yugoslavia -- as generally the trade with the CEMA countries -- is characterized by a high proportion, some 40 percent, of goods arising from joint cooperatives. Cooperation in the paper-cellulose and fertilizer industries is especilly important for the long range and in their volume. Another important branch of cooperation is the machinery industry, and within this the manufactue of vehicles for public transportation. (Particularly the Raba and Zasztava cooperatives.) It is characteristic of the Hungarian-Yugoslavian cooperatives that they are not the type that make end-products; the Hungarian and Yugoslavian enterprises have mainly entered into cooperatives for the manufacture of principal and small components and spare parts.

All this plays a role in the fact that the composition of products in the exchange differs from the structure that characterizes the trade between Hungary and the CEMA countries. In the Hungarian-Yugoslavian exchange the role and high proportion of raw materials, semi-finished goods, and spare parts are critical factors, and their share in the items delivered far exceeds 50 percent. Besides all this, the composition of products that has developed up to our day also differs from the structure that is characteristic of the traffic that is conducted in convertible currency with developed capitalist countries. On the one hand the share of agricultural products exchanged is low, and on the other the share of machine-industry goods in Hungarian export--including spare parts and components--is well above 20 percent.

The development of Hungarian-Yugoslavian trade in the 1970's was greatly influenced by internal and world economic conditions. The value of international trade of the two countries was about equal in 1970; computed in dollars, hungary's export was about 4.8 billion and Yugoslavia's 4.6 billion. In the past decade, Yugoslavia's foreign trade has grown faster than Hungary's, and its imports [have grown] even more. (From $2.9 billion in 1970 to $14 billion.) Until recent times, the development of Hungarian-Yugoslavian trade was erratic and unbalanced. There were years when the value of Hungarian exports was double that of imports. In this regard the changes that have been made in Yugoslavian foreign trade -- each republic and enterprise must provide for its own hard-currency needs -- began to make their influence felt already in 1981, and they brought about a situation of near balance also in Hungarian-Yugoslavian trade. Balance in the total of goods and services exchanged is a desirable goal for the uninterrupted development of bilateral cooperation.

The exchange of goods between Hungary and Yugoslavia this year has increased at a noteworthy rate, even if not as much as planned -- about 30 percent. But it must not be ignored that the similar foreign-trade problems and tasks of the two countries -- for example the necessity of moderating imports and increasing exports -- will make it more difficult than before to achieve balanced development of economic cooperation in a harmonious fashion. According to the experience of past years the production cooperatives that have been formed in the past decade have proved to be viable in spite of internal and external economic changes, [so] it seems that in the decade of the 80's foreign-trade cooperation should be based more on the permanent relationships of such production-cooperatives.

9611
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FURTHER POSSIBILITIES OF INSTITUTIONAL REFORM EXPLORED

Budapest FIGYELO in Hungarian 11 Nov 82 p 2

[Article by Lajos Bokros: "Directions of Change in the Institutional System"]

[Text] The question of transforming the institutional system of major enterprises has been brought up in the debate about the complex further development of economic management. In my opinion the term "institution" includes: the central economic management of major enterprises, the state's exercise of its right of ownership, the enterprise's organization and its internal operating mechanism, the interests, and the sum of the various behavioral rules.

Over the long range we cannot build on the present alternative--operation or equilibrium--in developing the economic management system. Growth and equilibrium must be implemented together, and at the same time export efficiency must be increased and the need for the specific energy resource for growth decreased, all of which are preconditions for increasing the standard of living.

Increasing efficiency requires continuous adjustment of the supply structure, and this in turn presumes constant retiring and investment of capital, that is, a constant regrouping of the energy resources. And thus we have already moved closer to the basic question: How can surplus production and efficient use of the replacement fund be ensured?

Efficiency is an "elastic concept" and as such, it is unable to be a direct guide for the daily activities of economic operations. We must assume that efficiency demonstrates first of all profitability--at least in the competitive sector, and also that the market mechanism is sufficiently self-regulating, and a situation cannot occur in which something is profitable at the enterprise level but cause a loss at the national level, or vice-versa.

Based on this, the goal of reforming the movement of capital and strengthening the incentive system can be defined as: profit being the basic measure to evaluate investments, moreover as a result of the decisionmakers interests. The question is what kind of an institutional system can best ensure implementation of the profit motive at all levels of management.

Good Intentions

It is not because of subjective reasons that the profit concept is not spreading in the national economy, but because the planning system still has a decisively natural-supply concept, and even in the cases of branches which otherwise belong in the competitive sector it prefers to make decisions first about the utilitarian developments and allocates the financial resources to suit these, rather than the other way around. And no wonder this is so, since the process of plan preparation, the branch interests of those participating in coordination, and/or their CEMA obligations, etc. make nothing else really possible. The other important reason is the decision making system, which due to the objective situation of the national management's institutional system can not make its decisions the same way as an economic operating organization which is forced to stand its ground on the market day after day. However, the situation today is that at a very high ratio of developments in the competitive sector the national management organs do not simply "influence" but actually they make the decisions. During the sixth 5-year plan period they would centrally distribute about two-thirds of the development resources.

Spreading of the profitability viewpoint is hindered also by the incentive system. Even in enterprise development decisions primarily the natural-supply viewpoint governs. What else could the main line of action be as long as even now the enterprises are hindered by a myriad of formal and informal requirements in the free selection of their product structure, and as long as profitability calculated on the basis of the prices in effect and of the subsidies and deductions does not necessarily coincide with efficiency? From this viewpoint the price system's shortcomings are also playing a role because they do not make it possible for the enterprises to make reliable calculations. And under such circumstances the enterprise, even if it wants to, can not take into consideration profitability to the extent to be able to assume full responsibility for development. So of course they elect the path of least resistance, and don't even try. The support and deduction system also has a similarly deforming role. That system is theoretically necessary because profitability as relayed by the price system does not necessarily coincide with efficiency at the national economic level. This system does not eliminate the shortcomings of the price system, and the two together do not result in making profitability and efficiency coincide. But an even greater problem is that this completely softens up the budget limitations of the enterprises and makes it totally impossible to clearly establish responsibility.

The list of reasons could go on, but even this much is sufficient to prove that the state's administrative and ownership structure which still fundamentally follows natural-supply goals and goals outside the economy, must be further developed into a property-increasing and value-oriented structure of entrepreneurial-ownership.

Enterpreneurial-Ownership Organization

The idea of creating a holding organization was mentioned in connection with further developing the enterpreneurial-ownership organization. Representatives of this organization operate the property belonging to the holding as their own, as owners, that is, they themselves determine at all times the optimum combination of the production factors, and the product structure at all times, that is, they can not only freely regroup the after-tax income but also the capital itself.

Before examining the reasons in favor of and against the holding organization, interpretation of the property must also be mentioned. In the economic sense, property can not be separated from economic management, since this latter is nothing else than a series of orders made by the owner. In the usual interpretation of holding organization exercising the ownership function and economic management should be separated from each other. According to the legal interpretation of ownership the natural or legal person has the exclusive right to be in command of the property, thus in the final analysis he can sell it, use it up, or destroy it. In this sense even the holding concept should not desire to separate the state's functions of economic management and ownership of the capital, because even assuming an ideal typical holding situation organizationally independent of the state administration, the most it can do is to shape the property's composition in terms of its utilitarian value as it wants to, but it is obligated to not only preserve but also increase its value. If it does not do this, it gets replaced, it fails or ceases, etc., thus in the final analysis it is responsible to the state for its activity. (But this last link of the chain cannot be left out of the "construction.")

In the proposals most of the time the role of the holding [company] is to regroup capital and to exercise the rights of an employer towards the enterprise leaders. Legally in these two respects the holding can become independent of the national administration. But is this limited independence sufficient to make profitability the primary consideration in development decisions?

Increased organizational and legal independence is necessary, but it is far from being a sufficient condition for creating the economic operating environment which focuses interest on profitability. We can create such an environment only by changing the institutional system, that is, together with making the appropriate changes in planning, in the decisionmaking incentives, prices, wages, taxation, etc. It is impossible to list all those measures which would be necessary, but perhaps it is sufficient to circumscribe the goal here: an environment must be developed in which price is the basic objective for the economic operating organizations as much as possible; the state regulations are as free of contradictions as possible, its changes are predictable, thus it becomes possible to make well founded calculations, and based on this the responsibility can be clearly established; the consequences of operating at a loss are borne by the actual decisionmaker; and thus there is no other alternative to a decisionmaking behavior which focuses on profitability.

It can be asked: Is the holding form an indispensible organizational condition for creating an environment which forces the behavior of the enterprises? In order to answer this question one must review the internal ordering structure of the holding format.

In the economic sense, operation for the holding means hardly anything more than giving foreman-type orders about the everyday technical and economic tasks of simple production; only this latter remains at the enterprise because the holding does the managing, that is, makes decisions about the product structure of production, and about the combination of resources. Actually the holding operates the same way as a trust, the enterprises of which are acting primarily not on the basis of signals from the market but on the basis of central directives. This deteriorates the ability to adjust to the market. Of course, the holding may make decisions according to profitability viewpoints, if and inasmuch as the outside environment is such that it requires this. However, to a great extent this outside environment would be created by these very same holding mammoths for each other. The broader the fronts they wish to operate on, the larger they are, but at the same time the fewer of them there are, and thus the danger of forming cartels and making oligopolistis agreements is much greater. In addition, it is also easier for the national administrative organization to make agreements with these giant centers, and indeed the environment is inherently a hot bed for at least informally reshaping the directive-type relationships. Regardless of legal regulation, the economic directive system's "sociological fiber" would soon bring back the non-market type relationships, for the organizational structure is to bargain about plans, regulators, and prices.

Stock Corporation

There is only one way to avoid this: if all member holding enterprises gain as much independence on the market as possible. The member enterprises have independence not only in the area of operation but also with respect to product composition and the optimum combination of resources. In this case the holding can no longer regroup freely the capital and profits, at the most it may exercise the rights of employer and take a share of the profits. But in this way we are no longer talking about separating the functions of owning the capital and operating it, but about the separation of the so-called capital ownership and capital function, where ownership means only the right to control the yield of the financial capital, while the full entirety of economic operation belongs within the authority of the enterprise which exercises the capital function. This format is no longer holding, but the classic stock corporation.

The format of real stock corporation would be much better for our major enterprises than holding, but this would still have to be proven theoretically. I am certain that the holding organization would not necessarily mean a step forward even in comparison to today's situation, but its disadvantages can be seen in advance. It would therefore not be right for us to designate changing the institutional system of major enterprises in the direction of holding.

8584
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ECONOMIC DIFFICULTIES CALL FOR TIGHT 1983 BUDGET

Budapest FIGYELO in Hungarian 16 Dec 82 p 3

[Article by Antal Pongracz: "The 1983 Budget"]

[Text] This year's financial processes and the ones forecast for next year unquestionably represent a turning point in our financial equilibrium. In forced response to the extremely unfavorable conditions on foreign money markets and as a result of a practical economic policy aimed at improving our economic equilibrium, the balance of our nonruble-denominated foreign trade reflects vigorous improvement.

Our external economic equilibrium has been improving over a period of several years, and now this is being followed by an improvement of the state budget's balance. Already this year the budgetary deficit is expected to be less than what was planned, but for 1983 a further reduction of the deficit is a necessary requirement.

The ensuring of the export allocations necessary for a balance-of-trade surplus, and raising the foreign exchange needed to service our foreign debt unavoidably mean a curtailment of the incomes that can be spent domestically.

Under these conditions the state budget, which has been assigned the function of redistributing incomes, must collect from the other owners of money (from the enterprises and individuals) the revenue to ensure that the volume of available goods and services and the money in circulation are balanced, and at the same time it must also cut its own expenditure and reduce its borrowing requirement. However, the curtailment of purchasing power can and must be done selectively. Budgetary policy for 1982 and also for 1983 has placed emphasis on improving the enterprises' ability to export, on providing the financial conditions for the enterprises that pledge to develop rapidly. In this sense, then, the state budget has been and will remain one of the factors on which the external economic results are based.

Our Foundation

Despite the less favorable world economic conditions than had been expected, and although in several areas the economic processes have departed from the projections in the annual economic plan, on the whole the development of the economy in 1982 has been in accord with our basic objectives, as this is already known from the report presented at the session of the MSZMP Central Committee.

These results have been achieved at the cost of considerable effort, and with the help of a more active and more direct practice of economic management than in years past.

The efficiency of economic activity showed slight improvement, but not enough to offset the effect of the worsening external conditions. Computed at current prices, the total income generated within the economy increased at a rate slightly higher than planned, but this is mostly a result of higher domestic prices (only some of which are confirmed by the foreign market's value judgment) and merely to a lesser extent a result of improving economic activity. Which indicates that in real terms the growth rate of total income reaches only the lower limit planned, and that the terms of trade are worsening with both principal provenances and destinations.

The indications are that the profit realized by the enterprises will be 5 to 6 percent lower than last year, primarily because the enterprises have been unable to compensate with higher efficiency for the income-reducing effect of the unfavorable market conditions and of the regulators' modification. Favorable changes in accord with our objectives, unfavorable changes beyond our control, and the enterprises' slow response to the latter are to be found equally within our economic processes. Due to the constriction of export opportunities, and in some instances to the curbing of import and the softening of domestic demand, production increased only modestly. Improvement of the quality of management --over and above the reduction of energy intensity--remains slow. There is not enough progress in producing products that are modern and competitive on capitalist markets, suitable for import substitution, and less material-intensive. Enterprise behavior that is truly entrepreneurial and shows initiative is slow to unfold. Mostly as a result of these circumstances, the enterprises' financial situation is tighter than in the past, liquidity problems increased during the year, and there was an increase in the number of enterprises in permanent financial difficulties and in the total amount of payments due.

Besides the amount of income generated within the economy, the factors that determine the situation of the state budget are basically the proportion of the state's share of incomes, and the total volume of the budget's financing tasks.

The state budget's share of incomes is higher in 1982 than the year before, and also higher than had been planned. The increasing centralization of incomes in the state budget is predominantly a result of the measures introduced during the year. These measures applied to the centralization of incomes resulting from price increases, and also to enterprise and personal incomes that exceeded the economy's capabilities and could not be matched with a suitable domestic supply of goods and services.

The state budget's accumulation expenditures declined in comparison with 1981, and there are savings also in relation to the plan. Within society's public expenditures, the money needed to finance the tasks performed by the central and local-council budgetary organs increased, mostly because of the price measures. This additional expenditure was covered through the better mobilization of the institutions' reserves than in years past, and thus additional aid from the central government will not be necessary.

Total budgetary revenue in 1982 will probably be lower than planned. To preserve the desirable balance of the state budget, therefore, the financial administration

has been forced to cut expenditures. In addition to the already mentioned savings in accumulation expenditures, the most significant savings have occurred in tax rebates to enterprises.

In the final outcome the state budget's deficit, in spite of the unfavorable factors arising during the year, will probably be less by 1.0 to 3.0 billion forints than had been planned.

The estimates for the 1983 state budget have been formulated in accordance with the economic-policy objectives contained in the annual national economic plan, and they will aid the realization of these objectives. The estimates for 1983 are based on the assumption that the favorable trends of the preceding years, and especially in 1982, will continue and intensify. They also take into account the changes that have occurred in the economic and the financial situation, and they anticipate the impact of the foreseeable changes in the domestic and external economic conditions.

The draft of the finance bill is based on the strict assumption that in themselves the results of 1982, on the whole favorable, are not enough to provide the basis for future development. The key issue of development in 1983 and the subsequent years is the consolidation of the country's external economic equilibrium, the continuous maintenance of international solvency. The extent to which this objective is realized will determine the feasibility of fulfilling the other objectives related to the rate of economic growth and domestic spending.

The foundation on which we can base the improvement of external economic equilibrium and the maintenance of international solvency in 1983 comprises primarily the modification of the production structure, rapid expansion of export, and the reduction of production costs. The development of our foreign payments and possibilities of borrowing demands a larger balance-of-trade surplus than in 1982. Therefore a substantial proportion of the stock of goods produced will have to be exported, and at the same time imports also will have to be curtailed. Thus, even with the improvement of efficiency that can realistically be expected, accumulation will have to be reduced further, and also personal consumption will decline.

Centralization of Incomes

The economic development planned for 1983 sets very high standards for the enterprises. These are conveyed to the enterprises through the changes in the system of regulation. In the course of modifying the regulators, we had to regard as an important objective the balancing of domestic purchasing power against the volume of goods and services available. Therefore measures had to be adopted to keep within limits the purchasing power in both accumulation and personal consumption. The modified system of economic regulation provides more economic incentive to improve efficiency and to make structural changes at a faster rate. At the same time--through modifications of the price system, the new system of wage regulation, the new system of incentives for managers, the forint's further devaluation, and finally through the introduction of new instruments for the transfer of developmental resources between enterprises (the floating of bonds, the transfer of fixed assets, and commercial credit), or through the better functioning of the system of such transfers--economic regulation is aiding

the enterprises that are assuming a greater burden in improving economic equilibrium and are responding flexibly to market demand.

In formulating the estimates for 1983 we assumed that total income generated within the economy, at current prices, would increase by about 7 percent. Within this, enterprise profits will be higher by 6 to 8 percent than this year, but even so their volume will be only slightly higher than in 1981. At a foreseeably moderate growth rate of output, the expected profit will be attainable only if the enterprises are able to compensate for the unfavorable impact of the worsening external and domestic conditions by improving the efficiency of their economic activity.

The situation of the 1983 state budget will be determined to a large extent by the measures aimed to improve economic equilibrium and to establish harmony between national economic incomes and enterprise incomes, through the increasing centralization of incomes and their restricted redistribution. As a result of these measures, the proportion of net income centralized in the state budget will increase by nearly a percentage point. We also expect that the enterprises' progressive tax liability under the new system of wage and income regulation will increase substantially in cases when they decide to pay higher wages than what the actual performances, measured by strict standards, warrant. This will enhance the outflow of wages linked to the rise of productivity or, in its absence, the centralization of profits.

Budgetary Deficit Smaller

According to the legislative bill introduced in the National Assembly, the state budget for 1983 estimates 523.5 billion forints of total revenue, 533.7 billion forints of total expenditure, and a deficit of 10.2 billion forints. This deficit is 3.0 billion forints smaller than the expected deficit this year. This is the first time in several years that the budgetary deficit has dropped, reflecting the efforts to improve equilibrium.

The fact that the 1983 budget has more or less succeeded in adjusting the growth rate of accumulation expenditures and of society's public expenditures to the process of income generation that has slowed down in the early 1980's represents a turning point. This of course could not happen overnight, because the state's earlier social commitments and the expenditures that they involve, particularly within the policy on the standard of living (the benefits that the state budget provides in cash and in kind), were decisive for the development of the budget's balance.

Several modifications in the state budget's internal structure reflect these trends. On the revenue side of the budget, the proportion of total revenue collected from the enterprises has been increased by 3 percentage points (to 83 percent); and the proportion of revenue collected from the population, by 1 percentage point (to 7 percent). Strict control of purchasing power in 1983 extends to restricting the expenditure of budgetary revenue, the demand generated by these expenditures. The lessening of the purchasing power of other income earners (enterprises and individuals) by budgetary means results in an increase of budgetary revenue, but this additional revenue may not be spent. The expenditure side of the budget is characterized by a general curtailment of expenditure, but within this continued preference is given to the budgetary

allotments that aid structural changes and the improvement of competitiveness, and also to the budgetary allotments for the improvement of health care and of the other educational, community and social services that are essential from the viewpoint of social policy.

According to the submitted budget estimates, the net revenue collected from the enterprises and cooperatives will increase at a relatively rapid rate, by 13 to 15 percent. This increase will stem primarily from tax measures, which represent direct collection of revenue, and from the moderate budgetary redistribution of incomes. The higher proportion of centralized income (higher rates of the progressive profit tax), the higher rates of social-security contributions, and the higher turnover taxes related to the distribution of products play the decisive role in the increase of revenue.

The budget's role in financing accumulation has declined steadily in recent years. In 1979, the budget provided 35 percent of the expenditures for accumulation, but in 1982 this proportion dropped to 24 percent. This declining trend will foreseeably be arrested in 1983, and the budget's expenditures for accumulation will increase slightly. The burden that accumulation places on the state budget cannot be reduced further because the forms of repayable financing cannot be applied to investments for the development of the infrastructure.

The budget allots 4.4 billion forints for large-scale state investments. For most of the investment projects in this category that are already underway, this amount will be sufficient for their realization according to schedule, but it does not cover new investment starts. The budget earmarks 26.1 billion forints for targeted investment programs that serve the development of the productive and community infrastructure; this is over 12 percent less than in 1982. The cutback affects most targeted investment programs. But the allotments for some of the programs (for example, the national telephone network, the development and modernization of hospitals and clinics) will permit even a slight increase in spending. The state is aiding enterprise investments with 10 billion forints (in the form of grants or state loans). Although this allotment is less than for 1982, it still permits increased support of several developmental objectives of outstanding importance (energy conservation, utilization of scrap and reprocessed materials, etc.).

Tight Estimates

Society's public expenditure--the expenditures of the central and local-council budgetary organs, and social security--accounts for more than half of total expenditure. The budget is financing approximately the same proportion of total consumption in 1983 as in 1982, about 43 percent. This compares with 41.7 percent in 1979. These commitments which the budget assumed to maintain the standard of living are a heavy burden.

At current prices, the allotment for the expenditures of the central and local-council budgetary organs is 4.5 percent higher than their foreseeable expenditures in 1982. If spent prudently and economically, this allotment will permit the maintenance and modest improvement of the level of services in basic health care and education. In other areas--taking also the rise of the price level into consideration--the real value of services can be maintained only through a reassessment of the tasks, organizational changes, better utilization of local resources, and the uncovering of internal reserves.

Last year and also this year, several important measures were introduced for greater economy in the use of public funds. As a result of these measures, the social priorities of the tasks are being reordered. Essential services for wide population strata have top priority, while activities that are important but serve to satisfy needs that are more qualitative by nature are being assigned lower priorities. All this is reflected in the differentiated development of the allotments for the individual special tasks and special programs. The allotments also reflect the fact that numerous measures have been adopted to cut expenditures and increase revenues (for example, reduction of the number of state-owned motor vehicles, less aid provided for foreign trips and study tours, curtailment of institutional purchases, higher fees for certain institutional services, and savings achieved through the reorganization of certain institutions), in order to bring institutional spending in line with the available resources.

The allotment for social-security expenditures is 9 percent higher than in 1982. More than three-fourths of this increase is due to factors that assert themselves automatically within the social-security system. The 1983 budget earmarks 74.5 billion forints for pensions, 14.7 billion forints for family allowances, and 10.2 billion forints for sick pay and other aid. The financial limits provide an opportunity for a modest increase of the family allowances to families with one and two children, for raising the lowest old pensions, and for an expansion of aid to the elderly.

The planned budgetary balance, based on extremely tight estimates, must be realized consistently. It is the more important to do so because we do not have idle financial resources that could be borrowed to finance a higher budgetary deficit than planned. The credit resources that might become additionally available are needed primarily for enterprise credits that serve basic objectives of economic policy, and to provide a better basis for financing private housing construction. Maintenance of the planned budgetary balance will depend on the ability of the enterprises to generate income, which primarily determines budgetary revenue, and on prudent and economical use of social public expenditures that account for the bulk of total expenditure. The prerequisites for this are being provided by the stronger compulsion and greater incentives of enterprise income regulation, and by the new system of financing budgetary organs that will be fully applied in 1983, in combination with more incentives and broader independence.

1014
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INFLATION, INVESTMENTS, EXPENDITURES VIEWED

Struggle Against Inflation

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 5 Dec 82 p 7

[Article by Witold Bien]

[Text] One of the critical weaknesses of our economy is progressive, large-scale inflation. It is both a consequence and a major cause of our weak economy. High Inflation considerably weakens and often neautralizes totally the operation of economic instruments whose objective is to motivate enterprises and worker crews to work better.

The price changes instituted at the beginning of 1982 were necessary to reduce the inflationary gap and to create the foundations of enterprise self-financing. However, further large-scale price increases along with the strong pressure to increase outlays is disturbing, especially given the deep instability not only on the consumer goods market but likewise on the supply and investments market, and given the serious non-use of existing production capacity.

The process of sharply creeping inflation seriously endangers our emergence from the crisis and the economic reform. The possibility of attaining profits readily by increasing prices eliminates or reduces considerably the interest of enterprises in efficiency moves.

In such a situation, individual employees also adopt an attitude of arrogation and demand to be compensated for increased living costs. The trend toward increasing wages for better, more productive work recedes into the background.

Thus, it is indispensable that a decisive anti-inflationary policy be initiated to limit price increases significantly to an increase of only a few percentage points. The battle against inflation, however, must be a long-term struggle; inflation will not be eliminated or curbed sharply b through "quick fixes."

A Separate Indispensable Program

An effective war on inflation must be based upon the conscious awareness, control and elimination of the causes underlying the decline in the value of money. This requires the resolution of many difficult matters, the reconciliation of important, often conflicting interests of various social groups and the making and implementation of indispensable but not always popular decisions. Seeing the complexity of the tasks necessary for battling inflation and especially their close link with sociopolitical circumstances, we must give a clear-cut answer to the question: If we refrain from making unpopular decisions, will we be prolonging or even deepening the bad state of market stability and destroying the motivation of groups and individuals, and thereby delay our emergence from the crisis? By making unpopular decisions, will we be dispelling more rapidly the social dissatisfaction caused by the bad situation that inflation preserves or deepens?

There is only one answer to this question if we take into account that our goal should be our emergence from the crisis as rapidly as possible, the elimination of the elements of economic disorganization and the elimination of waste and the socialdemoralization that generally accompanies high inflation. The need for a decisive reduction in inflation was expressed in the draft resulting from discussion of the draft assumptions of a 3-year plan, in which a demand was expressed for a significant reduction in price increases. It appears that in this plan we should clearly take into account the ambitious goal of limiting inflation to 5 to 6 percent over the next 2 to 3 years.

The implementation of such an important goal, however, requires that a solid anti-inflation program including specific endeavors, stages of their implementation and anticipated results be prepared and presented to society. Without such a program, closely coordinated with the 3-year plan assumptions, getting inflation under control will have little effect.

An anti-inflation program should take into account the following preliminary assumptions:

--the elimination of the sources and causes of inflation in a manner that ensures the fastest reduction in its level to a tolerable level of several percentage points;

--the impossibility of moderating inflation by increasing indebtedness to capitalist countries and the need for attaining the indispensable surplus of import over export in turnover with these countries;

--the need for eliminating not only the already existing inflationary curve, but above all the resolute effort against creating an inflationary gap in the future.

At the same time, an anti-inflation program, if it is to be read as a series of endeavors indispensable for making perceptible impromement in the living standard of society, should take into account the following criteria:

First, not only should it stave off a decline or a setback in economic growth, it should likewise take into account those mechanisms favoring a conscious anti-inflation policy that will at the same time spur economic development, and especially an increase in material production. A program based on economic stagnation or one causing the economy to regress would neither be supported nor understood by society.

Second, we must eliminate in advance those endeavors that will produce short-term effects that have no chance of becoming permanent or that merely appear to battle inflation. For example, if we adopted the principle that every increase in living costs must be compensated in full by an increase in minimum private earnings, this would not be battling inflation--it would preserve it at an increasingly higher level. Because of the scale of the inflationary gap that already exists and that developed in the past, we cannot count on eliminating it within 2 to 3 years merely by increasing the supply of goods and services.

Third, if we are to reduce inflation significantly, we must use economic instruments to a much greater extent than in the past while limiting significantly administrative means of operation. The battle against inflation also requires the phased but consistent elimination of administrative distribution and the rationing of goods and services, which create their own sort of inflationary pressure.

Curbing inflation requires decisive action in two principal directions. On the one hand, we must stimulate an increase in production and the rationalization of its costs. On the other, we must abide fully by the principle that the issuing of money must be adapted to the supply of goods and services designated for private and group consumption, as well as for development. These operations must be synchronized. Stimulating an increase in production by rationalizing its costs should help to moderate these inflation factors that are arising because needs are being met to a lesser extent than formerly. A reduction in the issuing of money in turn causes a reduction in nominal expenses for consumption and for development, which has the effect of slowing producer drive increases.

A Clear Price Policy

As we examine the undertakings that ought to stimulate a production increase without inflationary pressure, a clear position emerges regarding pricing policy. This is especially so, since we cannot count on using import as a competitive instrument of price creation. We must answer the question of how to prevent unwarranted price increases when there is a lack of competition, when given products are supplied by a sole producer at a rate that guarantees profits without an increase in production or a reduction in costs.

One must agree with the persuasively reasoned position of J. Gorski ("Myths of Competition--and Others," POLITYKA, No 35, 16 October 1982) that it is largely utopian to say that the cure is to restore price competitiveness. Certainly, we can and must battle the monopolistic actions of enterprises and their associations in the area of dictating prices by the various available

methods (legal methods, for example), but the results of these activities will always be limited and cannot curb the trend toward excessive price increases.

At the same time, we must move toward the resolute transformation of the principles of emoluments-creation in enterprises. It seemed that with a significant degree of autonomy, enterprises would use the principles of differentiating emoluments-creation in enterprises. It seemed that with a significant degree of autonomy, enterprises would use the principles of differentiating emoluments according to work quantity and quality more fairly. Meanwhile, we note the primacy of the principle of wage egalitarianism and a drawing back from work by the job, but only where it decided the more direct connection between emoluments and production volume. This leads to stagnation, since wages are thus transformed into a sort of social service. Thus, it is indispensable that enterprise-founding organs conduct inspections and assessments of the operation of this important motivating element, especially since the situation until now likewise has aroused a sense of deep injustice among workforces.

Every enterprise should have an internal system of individual emoluments linked with production volume and with profits accruing from the rationalization of costs.

In curbing tendencies towarding the acquisition of inflationary profits by enterprises, we should not exclude price increases, even those tied in with the partial compensation of their effects, if we are to restore partial stability to the market in a specific field. What we must do in such a case, however, is tie this in with firmly avoiding the rationing of these goods. increasing prices and maintaining or expanding rationing preserves and even increases inflation, since any type of distribution engenders a tendency toward excessive demand. Moreover, a price increase alone without the lifting of rationing will not gain public support for anti-inflation measures.

The battle against inflation should also take into consideration the practical implementation of the economic reform principle that enterprises that do not meet self-financing conditions or show no signs of meeting them in the future will be liquidated. Without such a practical (and not merely a formal) threat to the existence of enterprises, the general social fund will continue to cover losses, and thereby, activity that helps to weaken the value of money. At the same time, the policy of product subsidies for specific products or groups of products should be especially cautious.

Private and Group Consumption

Resolving the dilemma of the level of private and group consumption is another problem. Under current conditions, stepping up production and actions to increase management efficiency are impossible without a simultaneous reduction of the share of group consumption in the national income effected during the period of our getting out of the crisis.

While the present situation of group consumption in such fields as health and education must be preserved, we must take into consideration the

unpopular but objective necessity that other fields should not be expanded, but cut back for a certain period. This likewise refers to social services, if their increase beyond our economic potential is not to cause merely an ostensible improvement that is quickly eliminated by price increases, thus leading to higher-scale inflation. This is related to the necessary counteraction of strong pressure for increasing wages in the nonproduction sphere, which may not outstrip wage increases in the production sphere.

In formulating an anti-inflation program, we must keep in mind that in the past one of the major sources of inflation was an excessive level of investment that likewise was a cause of reduced efficiency and effectiveness in the investment process. This is especially vital in that contrary to expectations, despite considerable unused reserves of production capacity, there is great pressure to invest. A significant portion of enterprises are considering increasing production by the general modernization of existing assets or the construction of new facilities, supposedly to surmount the "bottleneck" created by the ostensible lack of manpower. It is ostensible because the low level of the use of work time of the present workforce is being maintained.

Strong investment pressure is manifested by enterprise demands for earnings tax relief, regardless of recommendations that full depreciation, warranted by the necessity of undertaking new investments, be left at their disposal. There is also strong pressure from below to acquire budgetary subsidies for investments out of enterprise funds that do not pay for themselves.

Meanwhile, the elimination of economic instability requires that in the next few years, the volume of investments be maintained in the range of 25 percent of the national income. To avoid repeating the issuance of investment money without backing--and on a much more severe scale--it is indispensable that we eliminate the inflation created by investments, i.e., diverting funds for this purpose (enterprise funds, credit funds and budgetary subsidies) up to the amounts that actually correspond to the capital accumulation realized. At the same time, it is necessary that the following elements be considered:

--the criterion of effectiveness should be the sole determining factor of investment activity in the production sphere; for this reason, except for certain structural investments, production investments should not be financed in general from budgetary subsidies (i.e., the self-financing principle should be strictly observed);

--earnings tax relief for investment should be relegated to those fields that really ought to develop more rapidly, or even at the cost of curtailing the development of other fields;

--Funds from the enterprise development fund should directed more vigorously than in the past to finance reserves, on the basis of a suitable credit policy; on the other hand, budgetary subsidies for investments and bank cr[illegible] credit ought to be created only up to an amount that guarantees that the total volume of investments is maintained in proper proportion to the national income.

Anti-inflationary measures should have the effect of slowing down the increase in the issuing of both credit money and currency to a volume that allows it to be synchronized with the funds designated for extensive renovation and restoration and for group and individual consumption. Consequently, the increase in the issuance of money should fall within the range of the increase in the national income.

The Taxation System

The taxation system is a fundamental anti-inflationary instrument that must be consistently applied. This rich field of instruments should be used to better and better advantage.

First, the proper proportions must be maintained between direct and indirect taxes. The frequently expressed views concerning the advisability of increasing the role (read--increasing significantly) of the sales tax in order to make it difficult for "enterprises to increase profit by reaping the benefits of higher prices where they have a monopoly" (see Z. Sadowski, "Problems of the Present Stage of Implementation of the Reform," ZYCIE GOSPODARCZE, No 40, 1982) are incorrect.

Without denying the importance of the role of this tax in restoring partial market stability and in impacting upon the ultimate distribution of profits among the groups of people whose financial positions vary and upon the structure of consumption, we must remember that this tax should not be treated as an instrument for absorbing excess price benefits. This is a price-creating tax paid by the consumer and tacked on to the price by the producer-monopolist. Using a sales tax on a broader scale to absorb excess price benefits of producer can only increase inflation. For this reason, the sales tax must be used selectively and in moderation. The graduated system of taxing profits must be preserved, i.e., the tax should be imposed where profits actually have been realized. Obviously, a graduated tax, even a fairly stiff one, should not eliminate the interest of enterprises in increasing production and in efficiency measures; however, it should positively eliminate inflationary-type profits. It should be treated as an instrument adjusting wage and development demands to the results that are actually attained, while markedly restricting profits resulting from price manipulation.

Second, it is necessary that we initiate the general principle of the graduated taxation of private earnings of all citizens regardless of the source of this income. A compensatory tax should be initiated that would not undermine the incentive to do better work, but also would guard against excessive disproportion in personal income. Thus, this tax should include all citizens whose personal income from all sources, for example, exceeds the average wage 2.5 fold, with a maximum rate of 60 percent.

The land tax also requires major reform. Due to its symbolic level at present, it serves neither a motivational function, encouraging better use of land, nor a fiscal function. Given the high increase in rural income that is

not reflected in real market potential, this reform likewise must be treated as a vital anti-inflationary instrument.

We should also look at the issue of farm product prices. They ought to ensure the profitability of farm production; however, there is a special danger of their creating an inflationary curve in the farm economy. Experience has shown that increasing prices for farm products under conditions of severe inflation is not at all linked to an increase in the supply of farm products. but often discourages their increase.

Exchange Rates

Control of the exchange rates of the zloty ought to be one of the instruments halting inflationary processes. During a period of inflation, the exchange rate of the zloty should be made realistic; however, its depreciation must also have specific limits.

One must question the often expressed idea that every increase in the rate of the zloty creates greater incentives in the export field. An increase in the rate, which must be the same for export and import, causes an increase in manufacturing costs. This in turn helps to reduce the effectiveness of export by taking into account the already higher rate of exchange. This phenomenon is even more intense if it occurs at the same time as the implementation of the price-creation assumption that the price of basic raw materials, both imported and domestic, should be set on the basis of world-wide prices. Thus, a change in the rate of exchange should lead generally to a change in the price of domestic raw materials. For this reason, recognizing the advisability of making realistic the rate of exchange of the zloty, we must also abide by the principle that the scale of its depreciation should be regulated, based on the difference between the rate of inflation in Poland and in developed countries. This shows the need for applying additionally other instruments for stimulating the desired export volume (subsidies, tax relief).

In other words, the purpose of the foreign-exchange rate is merely to resolve those problems that are related to the difference in the level of domestic and foreign prices. On the other hand, a policy of the overly sharp depreciation of the zloty rate of exchange, in order to guarantee the profitability of all export at any price (even if indispensable,) would evoke a strong, unnecessary, excessive increase in domestic costs and would deepen inflationary processes, which do nothing to foster the growth of export.

At the same time, the transfer of foreign-exchange authorizations between economic units according to so-called principles of "commerce" that are in reality principles of the "black market" is unwarranted. This would mean the use of the laws of the "black market" by socialized units leading to the steady deformation of the zloty rate of exchange and the tying-in of the rate of exchange factor to inflation causing instruments.

In postulating a uniform realistic currency rate of exchange for all types of transactions, we must keep in mind that this may not be based on those

domestic products admitted into export whose prices differ significantly from their prices on foreign markets. This rate of exchange should be adjusted to the prices of that major portion of exported goods that may be sold profitably, given a uniform rate of exchange. The rest of our export would be subsidized within an economically justifiable range, and would help to meet our balance of payments needs. The once expressed notion of "export at any price regardless of profitability" is detrimental, as are short-sighted views that it is very easy to improve the market situation by restricting the export of goods that are domestically in short supply.

Moreover, in the field of currency turnover, from the viewpoint of the battle against inflation, we must abide by the following principles:

--the sole means of payment domestically should be the zloty. The domestic goods and services trade, except for so-called internal export, should be executed in this currency alone. The sometime proposal that foreign currencies should be used as a means of payment in the domestic clearing of accounts will only lead to weakening the zloty and the decline of its value;

--until we have conditions enabling the initiation of zloty convertibility, the use of foreign exchange domestically and abroad by foreigners dealing in foreign exchange must be subject to specific restrictions, in accordance with foreign exchange law;

--all foreign exchange operations of enterprises with foreign countries should be executed through Polish foreign exchange banks, since only this guarantees the proper circulation and allocation of foreign exchange via the normal channels and through the use of a uniform rate of exchange; at the same time, however, the liquidity of enterprise foreign exchange allowance accounts must be ensured.

The above summary of some necessary measures for battling inflation does not exhaust the subject. I believe, however, that the outline of steps presented here is enough to warrant the demand for the preparation of a comprehensive anti-inflation program, implemented with consistency. To a great extent, both the strengthening of our currency and our speedier emergence from the crisis, the growth of a sense of normalization of economic relations in our society and our potential for getting speculation under control depend on this.

Incomes and Expenditures

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 5 Dec 82 p 12

[Article by (SB)]

[Text] Preliminary estimates show that in 1982 the private earnings were from 3.3 trillion to 3.4 trillion zlotys, or 60 percent higher than in 1981.

Expenses will reach from 2.9 trillion to 3 trillion zlotys, or 65 percent higher than last year. This means that we must count on a very high increase showing that following the wage adjustment at the beginning of the year, another wage increase occurred that was not correspondingly covered by an increase in goods and services deliveries to supply the market.

Inflationary Gap

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 5 Dec 82 p 12

[Article by (SB)]

[Text] Current estimates of demand for good and services show that in spite of the February price increase, the value of goods deliveries to the market is not lagging behind real popular demand in 1982. This has caused an excessive increase in the issuing of money and the postponement of so-called forced savings, representing an inflationary curve estimated at approximately 180 billion zlotys in 1982. Together with the curve from the previous years, the total amount is estimated at 500 billion zlotys. The populace could spend this much money, if only the needed goods were available on the market. This leads to the conclusion that next year we must have very strict criteria for establishing work emoluments closely linked to an increase in labor productivity. Otherwise, we cannot expect a perceptible impromement in the market situation.

Financing Investments

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 5 Dec 82 p 12

[Article by (SB)]

[Text] The Central Yearly Plan assumptions for 1983 indicate that the requirement for indispensable funds for financing central and enterprise investments is more than 460 billion zlotys. A significant portion of this requirement cannot be covered in normal state credit due to a so-called "lack of credit worthiness" of the interested units. They simply lack the potential to repay credit given the current structure of prices and costs. Nor can the state budget guarantee the funds for such investments, although they are very necessary from the societal viewpoint.

In relation to this it is anticipated that in 1983 banks will restrict fundamentally turnover credits for enterprises that will designate larger amounts of money for investments that are not considered to be priorities. Banks will transfer the funds economized in the form of credits guaranteed by the state budget to those units that will undertake specially preferred ventures.

Investment Credits

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 5 Dec 82 p 12

[Article by (SB)]

[Text] The increase in indebtedness due to investment credits granted by the bank is estimated for 1982 at approximately 210 billion zlotys. Such a great increase in these credits has occurred in spite of the considerable restricting of investment outlays. This data confirms the accuracy of earlier assessments of protracted implementation of investments and the over-expansion of the labor front, despite significantly restricted outlays.

A fundamental cause of these phenomena, however, is the impaired efficiency of building-construction enterprises. They have become perceptibly less efficient from many reasons. Consequently, the organizational principles and accounting methods of builders should undergo a radical change. We should follow the example of Polonia construction enterprises that pay better but also require much more of their employees.

8536
CSO: 2600/129

PRINCIPAL GOALS OF 1983 ECONOMIC PLAN PRESENTED

Warsaw TRYBUNA LUDU in Polish 4, 5 Dec 82 p 5

[Speech by the deputy prime minister, chairman of Planning Commission of the Council of Ministers, Janusz Obodowski: "The PPR Sejm Session. Main Goals of the 1983 Plan: Reestablishing the Market Equilibrium--Stopping the Decline of Real Incomes--Stopping the Decline of Construction Industry."]

[Text] Citizen Speaker! Respected Members of Sejm!

The government has presented to the respected Members of Sejm the results of the popular consultation on the various versions of the premises of the National Social and Economic Plan for the years 1983-1985, as well as the Council of Ministers' resolution of 26 November of this year concerning the 1983 central plan.

In reference to these documents, I would like to present to the citizen members of Sejm the main economic problems in the coming year.

It is almost a year that our economy has been functioning under the martial law conditions. At the same time it has been also the first year of implementing of the economic reform.

Since fall 1980 we have experienced a declining output. This drop was alarming in 1981. The shortage of coal has been growing. We were threatened with the danger of an energy catastrophe during the winter of 1981/1982. There was a threat of lack of heat and energy in workplaces, apartments, schools, hospitals. Work discipline broke down in many enterprises. A process of disintegration of work management was taking place, anarchy was spreading in the country's economic life. Political adversaries were slowing down exports and procurement of agricultural products.

The introduction of martial law has stopped the development of these pathological phenomena. An elementary order has been reestablished in the economy. A process of creating conditions conducive to overcoming the economic difficulties and leading the country out of the crisis has begun.

This process does not proceed easily and automatically. It requires overcoming numerous barriers, not only in the economic sphere but also in the politico-social sphere. However, we are breaking those barriers and we are achieving positive results in many areas.

I shall concentrate my attention on the economic sphere.

For the last 4 months now in the industry as a whole we have been attaining higher output than in an analogous period of the last year. The trend of rising production and, to some degree, of rising labor productivity is becoming steady, and we can already now estimate that the results of the whole year will be only slightly lower in comparison with the last year.

This means that industry is adjusting to work under the conditions of the limited so-called supply imports from the capitalist countries, while increasing each month its output that is based on domestic raw materials as well as raw materials obtained from the socialist countries. There is a growing number of enterprises which successfully replace imported sources with the domestic ones and apply new own technologies developed by the Polish scientific and technical community.

The output of hard coal mines indicates positive results since the beginning of this year. Till the end of November this year almost 174 million tons of coal were mined, that is 24 million tons more than during the first eleven months of last year. Thanks to the miners' work we are not threatened with a coal deficit in the power plants and heat-generating plants during the coming winter. They have accumulated much larger reserves than in the previous years. At the same time the deliveries of coal to the farmers have reached a record level. Any grudging about this is a misunderstanding. We have also increased our export of coal. We are fully meeting our commitments to the socialist countries, and we have regained a considerable part of western markets that we lost last year.

We attempt to improve the catastrophic situation in construction industry. In October a few more apartments were completed than in October last year. We will try to make this positive trend permanent.

The situation of agriculture is uneven. As citizens Members of Sejm know, the harvest was good. The sugar-beet harvest is also favorable. Although it was lower than last year, its sugar content was much higher.

As a consequence of a long drought in parts of the country, the harvest of fodder crops was poorer. It is estimated that the yields of meadow hay were more than one-tenth lower than last year, while other fodder crops yields were lower even by one-fifth. The potato harvest is also lower.

Under such conditions we are noting an unfavorable trend in cattle breeding. During recent months the rebuilding of cattle stock on private farms has been halted. In agriculture as a whole we face an at first small, but gradually growing decline in the size of cattle herds and numbers of hogs. The acquisition of milk and eggs declines. The solution of the problem of cattle breeding is not easy, because to a large measure we have to adjust its size to domestic fodder resources. We will attempt, though, to protect the basic herd, so that with the progressing solving of fodder problems the fastest possible increase in procurement of slaughter livestock can be achieved.

Respected Members of Sejm!

While discussing the principal problems of our foreign trade I shall not go into the details of the familiar to you problems related to the economic restrictions applied against our country by western countries, particularly by the U.S. administration. Those restrictions have resulted in a decline of imports from capitalist countries by some 28 percent compared with the analogous period last year, while supply imports from these countries declined by half in comparison with 1980! This restriction is partially compensated by the increased deliveries from socialist countries, first of all from the Soviet Union. As is known, though, our needs include also those kinds of raw and other materials and coproduction elements that are in short supply in the countries of our commonwealth. Thus, not all our needs can be met through imports from our socialist partners.

In this situation, the results of our exports this year merit particular attention. In spite of a production level lower than last year, during the first 10 months of this year we have achieved an increase of over 6 percent in exports, counted in current prices.

It should be stressed here that exports to the CEMA countries have increased, and that our exports to the capitalist countries were maintained at last year's level. Thanks to this, in our trade with the capitalist countries we are achieving a positive balance of mutual exchange of goods. We consider this an important factor in a process of gradually regaining the payment credibility of our country. We intend to continue rebuilding this credibility. On the part of our western partners we expect a realistic attitude concerning our payment problems. We think that this attitude should be based on forsaking of the use of economic tools for political means.

Citizen Members of Sejm!

The currency and market situation is and will remain a particularly difficult element of our economic situation. Retail price changes at the beginning of this year, including the prices of basic food articles, have allowed us to put in motion the processes aiming at the recovery of market equilibrium. After the next few months passed, those positive processes have undergone a change for worse. It is a consequence of the particularly strong tendency this year of growth of wages, social services and other monetary incomes of the population. The government understands the factors which have produced these tendencies and which are still causing pressures from many directions to increase the monetary income of the population. I have to state, though, that in the conditions of a declining production and national income, it will not result in a more stable market and better living conditions of the population.

When we raised the prices and at the same time introduced a compensation system, we were declaing that we want to protect the economically weakest groups of the population. We were saying also that it is not possible to compensate everybody in full for the price rises, since it would be contrary to the premises and aims of the price changes we were undertaking. If we

attempt to have a normal market we have to adjust the volume of the population's income to the increase of social labor productivity and supply of goods to the market that is being recorded at a given moment. This is the basic condition of achieving a market equilibrium. We will not succeed in improving the population's living conditions by just printing money, with no guarantee of its real value.

The increase of the population's income is not yet tied to the increases in production (of goods) and to expanding of services. In the discussions on the ways of solving this problem, most frequently proposals are set forth that are aimed at solutions in the two following directions:

--either an administrative freeze, or at least sharp slowing of the growth of incomes and prices, while assuming that the growing supply will eventually equal the demand;

--or just the opposite: tolerating fast growth of incomes and allowing for an even faster growth of prices of goods and services.

Those are extreme solutions, and neither one can be utilized as a basis of our economic policy. Since, the first one would mean doing away with any motivation for the growth of labor productivity and production. The second solution would involve the danger of triggering an inflation spiral that would lessen the chances for improved effectiveness and cause the danger of deep income divergencies of our society.

Out of these considerations, the government intends to implement a policy promoting the growth of the supply of goods and services, accompanied by a moderate growth of prices and controlled increase of incomes. This should result in a gradual recovery of the market equilibrium and a decreasing inflation. For this reason, among other tools serving the implementation of the 1983 plan, there are also provisions for benefits for enterprises which increase their output and labor productivity.

We provide also for the gradual solution of price problems in such a way that the new--I repeat, the new--price rises in 1983, that is those not involving the results of the current year rises, would not exceed 9 to 10 percent. At the same time, we envision a growth of nominal wages that would be kept within the limits not allowing a further drop in the average real wages in the socialized economy.

Respected Members of Sejm!

The problem of market equilibrium is closely tied with the problem of the population's individual incomes.

We have recently inplemented social projects on an unusually large scale. It would be difficult to find in the history of any economy an example of a country where such a wide array of undertakings can be listed:

--shortening of work time, with a parallel rapid and even excessive growth of wages;

--broadening pension and annuity benefits, accompanied by the growth of the level of pensions and annuities;

--increasing scholarships, while the number of eligible students has been increased;

--expanding maternity and child care benefits.

The point is not to question already-implemented social plans or those contained in the pensions and annuities draft laws that cover employees of the socialized economy and other groups. These are being examined now by the Sejm commissions. However, one must have full awareness of the scale of those undertakings and the realistic possibilities of financing them.

In the absence of a rational attitude toward those problems we will be only deepening inflation.

This is also a problem of choosing between growth of expenditures for social aims, and allocation of financial means for aims connected with reviving the economy and stimulating the processes of development of the latter, among others through growth of wages that is tied with growth of labor productivity.

Many countries much wealthier than ours that are experiencing economic difficulties on a much smaller scale than our present crisis, look for a way out of these difficulties, to a considerable degree, through not infrequently brutal cuts in the outlays for social projects. I do not propose to do the same. It would be contrary to the essence of the socialist system, and to the party's policy. But I consider it my duty to remind you that in a situation like ours we have to, as the saying goes, examine thoughtfully each zloty on both sides before we spend it. It applies also to zlotys that are being spent for social aims.

Respected Members of Sejm!

The next, particularly essential aim of the economic policy is overcoming the material restrictions that are hindering the growth of production. As is well known, those restrictions pertain particularly to the supply of materials, especially imported ones, but quite often also to other factors involved in production. In situations such as these an activity is required that aims at shrinking the gap between demand for deficit production elements and the possibility of obtaining such elements. We also need activities that lead to the most rational and effective use of existing resources.

Respected Members of Sejm!

Also in this area we can envision two extreme ways of solving the problem of division of resources. The first relies exclusively on the administration division of resources, the other is restricted to the use of economic instruments, including prices, that favor obtaining deficit resources by those enterprises that can utilize them in a most effective way.

The distribution methods alone do not guarantee high management efficiency, and quite often they do not favor the economy of deficit resources. This is why 1983, in compliance with the law on economic and social planning, is to be the last year in the area of materials supply during which the allotment of supplies is permissible. In the later years the decisive role will be played generally by economic mechanisms. The difficulty consists in the fact that so far we have not designed an economic mechanism that would absolutely successfully replace allocation of resources. Prices do not act as such a mechanism, at least as long as there is a possibility of shifting the consequences of paying high prices for raw materials or other elements or production by the enterprises onto the buyer of finished products, who is often defenseless in confrontation with the autocratic supplier. In order to counter such autocracy the government has modified the principles of taxation of enterprises; a category of unjustified costs has been introduced. It is subject to income tax, the same way as it applies to the enterprise's profit. We are also expanding the application of regulated prices to include many semifinished products. Moreover, sanctions will be tougher regarding enterprises that take advantage of their monopolistic position to make excessive profits. In such cases, for a limited time, the enterprises are permitted to set their prices independently.

Considering the instruments serving the implementation of the 1983 central annual plan, we are taking a step forward in the direction of restricting the allocation system by the diversification of priorities and supporting the latter by such solutions as, for example, prohibiting the use of certain materials for low-priority targets, preferences for the economic use of materials and increased charges for their inefficient use.

Taking into account the changed situation, in 1983 the number of operation programs will be limited to 6, compared with their number this year. This should allow for more realistic tasks and means necessary for their realization that are contained in those programs. The area covered by the operation programs, including some 60 percent of production in 1982, shrinks to 15 percent of the value of production and some 20 percent of the value of deliveries of the basic raw and other materials.

Citizen Members of Sejm!

The third problem of the economic policy for the coming period is extricating ourselves from the existing investment impasse. The implementation of the investment program is unsatisfactory. There are more and more delays, overhead costs are growing excessively, we are encountering often unjustified cases of broadening of the investment programs, resulting in extension of the time necessary to complete a given project.

I am signalling these issues in order to stress once more the need for strict selectiveness of the investment initiatives for the sake of the first priority investments. This is not always being sufficiently perceived and understood.

In our investment policy for 1983 we stress the development and strengthening of the new mechanisms guiding the conduct of investment processes. The

instruments of direct guidance will be applied only in cases of central investments and those of the budgetary units. In a decisive majority of cases the investment program will be a result of enterprises' and other investors' independent decisions, with an active cooperation of banks in their capacity as creditors. Preferences will be given particularly to investments financed by the population's own resources, including production structures on private farms and that of craftsmen, as well as housing construction in towns and on farms.

Respected Members of Sejm!

In compliance with the law on the social and economic planning that has been approved by the Sejm, beginning this year the central annual plans are going to be voted on by the Council of Ministers. This is why the information on the basic decisions of this plan that has been presented to you, citizen members of Sejm, we treat as an auxiliary material for today's discussion of Sejm on budget, balance of payments and credit plan.

The central annual plan for 1983 evolves from the premises of the National Social and Economic Plan for 1983-1985, taking into account the results of popular consultation on these premises, and particularly tasks following from the decisions of the PUWP Central Committee 10th Plenary Session. We are attempting in this plan to:

1. reestablish the monetary-market equilibrium,

2. slow down the decline of real income,

3. stop the downward trend in the housing construction and create the conditions for its growth.

The successful realization of the tasks of the 1983 plan depend mainly on the growth of production in industry and construction, on achieving a desired level of goods turnover in our foreign trade, on the result of agricultural production and the efficiency of the infrastructure, particularly the transport.

At present, the prospects for realization of those tasks are highly uncertain.

Consequently, a different and less favorable than planned development of economic processes in the coming years cannot be excluded. In connection with this, in order to protect socially and economically particularly important areas, assuming limited number of operational programs, which I have already discussed, we are preparing a system of government orders that should stimulate certain areas of production.

The basic aim of industry in 1983 is to achieve and maintain the growth trend of prodcution recorded in the second half of this year. Further, it should strive for progress in implementing structural reconstruction, with the aim of a better adjustment of production to the needs resulting from the realization of its social and economic priorities.

We anticipate 4 percent growth in industrial production in 1983. It is assumed that work time in the raw materials and mining subsectors will remain unchanged next year. Consequently, it is assumed that the output of coal mines will stabilize. On the other hand, production of other basic raw materials that are required for the industry's production needs will increase. We are projecting a faster than average growth of production for the chemical industry, the wood and paper industry, and light industry. Production of agricultural machines and implements will grow particularly fast, namely by 15 percent.

In the 1983 central annual plan we are postulating further progress in the realization of long-range policy of promoting our trade with the socialist countries, particularly the Soviet Union. The latter continues to assist us by an increase in deliveries of raw and other materials and by granting us unusually favorable credits for financing our negative balance in our mutual trade.

The plan's premises reflect also our desire to increase our trade with the second payment area [capitalist countries]. The scale of this trade should facilitate both servicing our commitments, in the amount similar to that of the last two years, and increasing the supply import, helping activate faster our economy.

At the same time we will strengthen and develop economic instruments aimed at stimulating exports.

The key element of the 1983 plan is the problem of agriculture. We anticipate around 2 percent growth in global agricultural production. It is assumed that with favorable atmospheric conditions and an increase in the supply of industrial means of production it will be possible to increase substantially production of potatoes, as well as oleaginous and fodder plants. This will to a significant degree determine the growth of cattle herds in the future years. However, in 1983 we should expect a drop in cattle-raising and procurement of slaughter livestock. Nevertheless, we will endeavor in the 1983 plan to maintain the ration-card norms of meat for the population on the present level. We anticipate undertaking various moves that should help realize this aim as well.

A particularly difficult part of the plan is its intention to balance the population's purchasing fund with a sufficient supply of goods and services. We had not succeeded in achieving full balance of the population's income and spending at the time the plan was prepared. After the growth of population's income, including wages and price changes--which I have already discussed--has been considered, there is a goods gap of some 70 billion zlotys in the plan. Being aware of this gap, the government intends to begin next year in efforts leading to a decrease in the magnitude of the monetary-market disequilibrium. To achieve this aim, all available factors leading to an increase in the supply of goods and services will be activated. In the course of this action we will strive not only to liquidate the inflationary gap but also, at least partially, to rebuild the retail trade's stocks, which influences favorably the retail trade and market operations.

Assuming full realization of goals set for the area of material production, it is estimated that the generated national income will grow between 2 and 2.5 percent. Thus, we anticipate that 1983--after four successive years of declining national income--will be the first year of its growth. The fulfillment of the planned economic goals should be assisted by the correcting principles of economic and financial enterprise operation, which have been approved for introduction in the coming year. I should add that the above-mentioned corrections were influenced by experiences gained so far in the course of implementing the economic reform. In particular, besides changes in the system of setting prices and their stricter control, which I have already mentioned, the principles of charging enterprises for the professional activization fund have been modified. The purpose of these changes is to tie closely the growth of wages with the growth of production and labor productivity. I would like to note that 1983 will actually be the first year of quiet work of our economy in the conditions of modified reform mechanism.

The whole 3-year plan will be dedicated to restoring favorable trends in our economy. Work on this plan continues, and its draft will be worked out after the draft constituting the skeleton of its final premises has been selected by the respected members of Sejm.

I would like to thank the respected members of Sejm for your attention.

9644
CSO: 2600/147

NATIONAL ECONOMIC SITUATION REVIEWED

Warsaw FAKTY i KOMENTARZE in Polish No 22, 5 Dec 82 pp 5-13

[Review prepared by M.R.]

[Text] The past 10 months were an inaugural period in the process of eliminating negative tendencies in the economy. An overall assessment of the national economic situation shows a systematic improvement in many fields.

October was the third successive month in which the value of industry's sold production exceeded last year's level. Production rose 5 percent and, in a comparable worktime, 8 percent. Only in the feed, metals, timber and textile industries was the value of production in October lower than last year's.

In a 10-months' period the value of production reached 5,309 billion zlotys, and was 4 percent lower, i.e., by 228 billion zlotys, than in the comparable period in 1981, and 16 percent lower than in 1979. The production decline in the processing industry is 5 percent, while the mining industry output rose 10 percent.

There was some improvement in recent months in import of supplies, which became an important factor in the growth rate of production. It is estimated that during 10 months, while production declined 4 percent overall, the production that is dependent on import was 6 percent lower than last year, and that based on domestic raw materials was 1 percent lower, whereas in the first six months these declines were 10 percent and 4 percent, respectively.

During 10 months, the production of the following basic fuels and raw materials exceeded last year's levels: hard coal (by 16.6 percent), brown coal (by 3.1 percent), electric energy (by 0.7 percent), copper (by 5.2 percent), cement (by 6.1 percent), and paper (by 3.2 percent).

Despite this small improvement, industrial production is still too low and does not correspond to needs. The difficulties arising from the low levels of industrial production are further intensified by the deterioration in quality. In the first six months of this year, in comparison with last year, the number of products bearing quality symbols dropped by 4,326, i.e., by 16.1 percent. Of these, there were 503 fewer products with the "Q" symbol, i.e., a drop of 24 percent, and 3,823 fewer products with the "1" symbol, i.e., a drop of 15.4 percent. The defective quality index on market products in the first six months of 1982 was 1.89 percent.

Because of the inadequate quality of industrial production, the economy suffered losses amounting to 19.1 billion zlotys in the first six months of the year. It should be mentioned that these losses occurred during a period when the market was unbalanced, trade lowered its requirements in accepting goods, and producers applied pressure on purchasers to accept goods which did not meet quality standards.

The situation in agriculture is characterized by good grain and fruit crops, but poor root and fodder crops and yields and poor vegetable crops, a continuing regression in livestock production, and particularly hogs, and an insufficient rate of procurement of grain and potatoes, mainly for industry.

As a result of this year's drought, fodder crops, mainly for cattle, were considerably smaller. It is estimated that meadow-hay harvests will be 1.6 million tons, i.e., 11 percent, smaller, corn harvests for green pulp will be smaller by 5.1 million tons, i.e., 24 percent, and root fodder crops will be 2.6 million tons, i.e., 22 percent, smaller than those obtained last year.

The potato crops will be between 32.1 and 33.8 million tons, which is 8.8 to 10.5 million tons less than last year and the 1976-1980 average. Vegetable crops will also be smaller than last year, by 950,000 tons, i.e., by 19 percent. According to preliminary estimates, in the 1982-1983 marketing year stocks of grain, potatoes and concentrated fodder, from purchases in the private economy will be 2.2 million tons (8 percent) lower than last year's, and 2.7 million tons (9.3 percent) lower than the average in the last 5 years.

The poorer fodder crops this year were caused by a bad growing season and shortages in means of production, mainly artificial fertilizers and insecticides.

The sugar beet harvesting period is proceeding very well. Up to the 10th of November, 14.6 million tons of sugar beets had been procured, and 6.6 million tons were processed, obtaining 830,000 tons of sugar. It is estimated that sugar beet procurement from this year's harvest will amount to about 15 million tons, and sugar production will be at about 1.7 million tons, as against 1,650 thousand tons envisaged in the plan.

From the beginning of the harvesting to the end of October, the "Peasant Self-Help" Gmina Cooperatives and the potato industry plants have procured a total of approximately 1.4 million tons of potatoes, including over 500,000 tons of potatoes for industrial processing, which means that the procurement plan for industrial needs is only 36 percent fulfilled. This is causing very serious problems in supplying the potato industry with raw material. Potato deliveries in the spring months, in view of the very negligible procurement during this period (in 1981 it was about 20,000 tons), will not improve supplies for industry.

The procurement of potatoes is basically affected not only by the smaller harvests but also but the difficult fodder situation and the high free-market prices of edible potatoes.

Grain procurement is also low, despite the fact that crops are 1.5 million tons larger than a year ago. Procurement of consumer grain from the beginning of the harvesting period to the end of October amounted to approxiately 2.5 million tons,

which constitutes 50 percent fulfillment of the plan. In October only about 110,000 tons of grain was procured. Procurement will be about 2 million tons lower than planned. Grain procurement is greatly affected by the fodder situation (the farmers are keeping grain to fatten the herds).

Serious declining tendencies are appearing in livestock production. As of the end of September of this year, in comparison with the previous year, cattle head dropped 1.1 percent, the number of hogs dropped 2.2 percent; furthermore, the drop in number of hogs (total, in all of agriculture) was attributed to a large reduction, as compared to last year, in number of piglets below 3 months (15.7 percent less) and gilts for breeding (13.2 percent less). At the same time, the number of shoats and porkers was 8.3 percent higher than during the same period last year.

The farmers' tendency toward the rebuilding of cattle herds in private farms, which appeared at the beginning of the past year, seems to be clearly weakening of late. This is shown by the large slaughter of cows and calves. During 10 months the supply of calves was more than double that of last year, and in October it increased four-and-a-half fold. This is related mainly to the fodder situation.

The procurement of slaughter hogs and cattle is going better than anticipated. In October of this year, total procurement of slaughter livestock (in post-slaughter warm weight in terms of meat) was 19.8 percent higher than a year ago, and during the January-October period, it amounted to 1,556 thousand tons and was 2.1 percent lower.

The difficult situation in livestock production and procurement is caused not only by the steadily growing shortage of concentrated feed but also by the accumulation of negative events which appeared in agriculture as early as 1981, and particularly a decline in production supplies for agriculture, a collapse of market balance, less confidence on the part of the farmers in the money situation, and disturbance of the basic economic relations within agriculture. This affects the profitability of particular types of production.

The investment outlays implemented during 9 months of this year in the socialized economy were 22.9 percent lower than during the 9 months of last year. The reduction in outlays is, therefore, deeper than envisaged in the Central Socioeconomic Plan for 1982 (by 11 percent). It appears that the plan's assumptions will fall far short of fulfillment--about 10 percent.

Delays are appearing in implementation of the actual investment program. During a 9-months' period this year, 26.4 percent of the tasks fixed for a year in the completion and turn-over for use of facilities in investment construction in the state economy were executed.

The situation in housing construction is not good. In 10 months of this year, 83,900 apartments were released for occupancy, ie., 22,800 less (by 21.4 percent) than in the same period last year. The number of completed apartments constitutes scarcely 57.9-69.9 percent of the very low annual plan. At an average reduction of construction by 21.4 percent, in the 8 largest urban centers this drop amounted to an average 26.5 percent, including 45.6 percent in Gdansk, 31.5 percent in Krakow, 30.9 percent in Katowice, and 30 percent in Wroclaw.. In addition to these

urban centers, an over 30-percent drop in construction occurred in 6 other voivodships: Chelm, Czestochowa, Gorzow, Kalisz, Nowy Sacz and Zamosc.

Results obtained in 10 months demonstrate that the annual plan for socialized housing construction calling for 120,000-145,000 apartments will not be fulfilled.

It is estimated that from the standpoint of location, the highest shortages of apartments in relation to the plan will occur in the following voivodships: Tarnow, Gdansk, Plock, Jelenia Gora, Krosno, Katowice, Wroclaw, Nowy Sacz and Skierniewice.

The employment level in the four main sectors of material production during 10 months of this year was 5 percent, i.e., by 405,000 persons, below that of the corresponding period last year. The decline in employment occurred as follows: in industry, a drop of 252,000 persons, in construction, 86,000, in transportation and communication, 49,000, and in domestic trade, 18,000 persons.

As of the end of October, this year, applications for early retirement were submitted by 604,000 people. Of this number, 419,000 were granted and 76,000 denied (in 1981, 168,000 people took early retirement, in 1980--20,000).

There was a rapid increase in job vacancies in successive months, while the number of people seeking work through employment offices decreased. The number of job vacancies more than doubled during the current year, and the number of people looking for jobs dropped almost threefold, indicating a systematic decline.

The occurrence of an employment deficit, at a time when labor productivity in industry during the 10-months' period was 11 percent lower, and in construction 23 percent lower than during the same period in the pre-crisis year of 1979, should be regarded as a sign of an unhealthy situation on the labor market, which is also made worse by the continuing high fluctuation of cadre.

The average wage in the socialized economy in the January-October period rose approximately 47 percent and reached a level of 10,837 zlotys, combined with workers' compensation, and without compensation it rose about 27 percent (to 9,319 zlotys).

The highest growth in average wage occurred in industry. In this sector, average wage amounted to 11,486 zlotys, i.e., it increased 52 percent. The high growth of average wage in industry was affected by the high growth of average wage in the mining industry, mainly coal.

In the mining industry, the average wage increased 68 percent, reaching 21,200 zlotys, and without compensation it rose 55 percent (to 19,600 zlotys). However, in the processing industry, the wage with compensation increased 47 percent (to 10,200 zlotys), and without compensation, 26 percent (to 8,700 zlotys).

Living costs of workers employed in the socialized economy in a 9-months' period this year (these data are always given with a one-months' delay) rose 104 percent, which, when compared with the rise in average wage, tells us that the real value of average current workers' incomes is 26 percent lower than last year. An even higher growth of living costs, reaching 114 percent, occurred in pensioners' and annuitants' households, in which a relatively large part of the budget are expenditures for food.

Food prices have risen more than manufactured goods, thus their impact on the cost of living index of retired and pensioned families is crucial. Food prices during a 10-months' period rose 2.6-fold in socialized trade.

It should be stated, however, that the average pension and annuity increased approximately 85 percent, thus their real value is about 87 percent of last year's amount. This indicates that the living conditions of pensioners and annuitants deteriorated relatively less.

The population's income during January-October, this year, amounted to 2,699 billion zlotys, which was 60 percent more than in the same period last year. Of this, workers' emoluments rose 43 percent, social services, 142 percent, while expenditures totaled 2,380 billion zlotys, i.e., approximately 63 percent.

The predominance of the growth rate of the population's expenditures over the growth rate of its income has appeared since March of this year, but in recent months as a result of an acceleration in the rate of income, it has diminished somewhat.

Many enterprises, taking advantage of the mechanisms provided in Council of Ministers' Resolution 135, have been granting wage increases, made possible because of the application of new wage rate scales. This, for the most part, affected the acceleration of the growth rate of wages. Social service payments are also increasing greatly. As a result, their share in total income increased to approximately 20 percent, while in 1978 it amounted to only 10.5 percent, and in 1970, about 9 percent.

The sales value of food articles during January-October 1982, in current prices, was more than twice higher, and nonfood goods, about 49 percent higher than the year before. However, in constant prices, purchase of food items was about 14 percent below that of the same period last year, and nonfood goods, about 22 percent lower.

The population's purchasing power in the total account did not find full coverage in goods and services; the consequence is a high increase in the population's monetary reserves. This increase, during the January-October period amounted to 319 billion zlotys, i.e. approximately 45 percent more than in the same period last year, and cash increased at a very high rate, almost doubling. The increase in reserves has already greatly exceeded the level established in the plan for all of 1982 (200 billion zlotys), and over the entire year may amount to over 350 billion zlotys.

Under conditions which limit the ability to supply more goods, there is a real threat that the money-market imbalance will become worse. According to a Polish National Bank estimate, in the fourth quarter the population's purchasing fund will amount to approximately 790 billion zlotys, while the probable level of deliveries of market goods is estimated at about 690 billion zlotys. In the fourth quarter, therefore, a goods gap amounting to about 100 billion zlotys would occur.

Despite a growth in industrial production in recent months, a steep decline in production for the market continues. As production in October grew 5 percent, sales of industrial goods in constant prices were 23 percent lower than the year before.

In October, market deliveries of basic food articles provided a continuity in sales. Demand for state-controlled articles was fully covered. However, for several months now the structure in deliveries of meats and meat products is unfavorable. While there is a greater share of beef, there are shortages in deliveries of pork and cured meats which are particularly preferred by customers.

Supplies of certain food goods not included under state control continue to be inadequate. There has not been enough fish and fish products, ripening cheeses, sour cream, eggs, potato flour, tea, or gelatin. There are absolutely no condiments available. Deliveries of confectionery products, particularly chocolate candy, did not cover demand.

The availability of industrial products on the market has undergone no substantial change. Reductions in deliveries occur in almost all sectors. Despite high prices, the goods are immediately bought out. There are large shortages in deliveries from the light industry, especially footwear, clothing and fabrics.

Despite some progress in deliveries of goods from the chemical subsector, disinfecting preparations, insecticides, cleaning supplies and pharmaceutical products, paints (water-based and oil-based), and glues, continue to be in short supply.

There is more coal available than in previous years. Coal sales for the populace during the 10-months' period were about 19 percent higher than last year, and in the rural coal-yards, about 16 percent higher. Despite this, the populace's requirements, particularly for the better grades of coal, are not fully met.

In foreign trade October was a successive month of gradual improvement in commodity turnovers, particularly in export.

Commodity exchange with the first payments area [socialist countries] during the 10 months was characterized by a high growth of export, and a slight increase in import. Export results were determined mainly by a growth in deliveries of products from the electro-machinery industry, a 13.6 percent increase; construction facilities, an increase of 25.9 percent; fuels and energy, 63.3 percent; and chemical industry products, 7.4 percent. The structure of designation of import changed. Imports of electro-machinery products dropped, and imports of raw materials, other materials, and market goods, increased.

In trade with countries of the second payments area [capitalist countries], in October export increased 2.3 percent, and after 10 months, last year's level was achieved. Last year's level was achieved as a result of a growth in export in the fuels and energy subsectors--by 33 percent, and construction facilities, by 42.7 percent. In the other subsectors, exports dropped. The largest declines occurred in the mineral products subsector, 26.8 percent, the wood-paper pulp industry, 28 percent, and light industry, 22.6 percent. In October import dropped 22.3 percent. Nevertheless, October results made it possible to reduce the decline of import from 28.2 percent after three quarters to 27.7 percent after ten months. The continuing, since the first of the year, favorable balance of commodity turnovers improved still further and at the end of October amounted to 96.3 billion foreign-exchange zlotys.

From the beginning of the year, deep transformations are occurring in the designation

of import for particular economic purposes. Import of capital goods, grain and fodder is being reduced and the share of expenditures for deliveries of supply goods for industry is being enlarged. This has been particularly evident in recent months.

The economic results of the 10-months' period show a gradual slow-down in the declining tendencies. This is especially clear in industry, export, and in deliveries of state-controlled food articles.

This does not mean, of course, that the crisis has been overcome. There are still many difficult months ahead of us. How we live through those months will depend on the work, initiative and the skillfulness with which the enterprises apply the rules of the game contained in economic reform.

The Council of Ministers, in accordance with the resolution of the Ninth Congress and the decisions of the Central Committee Tenth Plenum, has prepared the basic proposals for modifying the system by which the enterprises will function in 1983. The point of these proposals is that the socially and economically unwarranted pricing "wilfulness" of the enterprises must be restricted, and that their interest in production growth, labor productivity, and management-efficiency improvement must be increased.

9295
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MINING INDUSTRY DEVELOPMENTS OUTLINED

Warsaw ZYCIE GOSPODARCZE in Polish No 46, 5 Dec 82 p 1

[Article by M.]

[Text] Miners Festival Without Glitter

"Hail to Miners for Their Toil"--this is a banner slogan. But there have been already enough banner slogans. It is time for facts and for rational approach to them. Here is a number of dry facts.

Over a half-million persons (525,000) are employed in the mining industry. In the coal industry they number 440,000 persons, almost 10 percent of all those employed in the socialized industries. In other words, every tenth person employed in the socialized sector of industry works in the coal mining industry. The dependency of Polish economy on coal is best illustrated by the part played by solid fuels in the consumption of primary energy which in Poland comes to 79 percent. This is without precedent in international comparisons. In the USSR solid fuels constitute 30 percent of consumption of primary energy, in Hungary 33 percent, in Great Britain 33 percent, in the Federal Republic of Germany 27 percent, in France 17 percent, in Austria 12 percent.

Only in this light can one see the importance of overcoming of last year's breakdown in the coal industry. In the period between January and October of 1982 mining of coal amounted to 158.5 million tons and was 16.6 percent higher when compared to the same period of previous year. Although we have not reached the level of coal production of the first half of 1980, in 1982 it was comparatively higher than both in the second half of 1980 and in the entire year of 1981.

Production and Use of Hard Coal

Totals	1975	1980	1981	Jan-Oct 1982
	in millions of tons			
Mined	171.6	193.1	163.0	158.5
Imported	1.1	1.0	1.1	0.9
Available for domestic consumption	133.5	165.5	149.5	134.3
for production and exploitation	108.3	133.8	119.9	103.9
for residential and communal use	25.2	31.7	29.6	30.4
Exported	38.5	31.0	15.2	22.1*

*Shipments from coal mines for the disposal of foreign trade were higher and totaled 23.3 million tons.

The above table shows principal entries of hard coal balance sheet. It is worth to point out that only during the period from January to October of 1982 30.4 million tons of hard coal were designated for residential-communal uses, while during the entire 1981 for these same uses only 29.6 million tons of coal were designated.

The level of hard coal export has also been restored. Between January and October of 1982 the exports totaled 23.3 million tons while during the entire previous year it totaled 15.2 million tons. We have sold 10.3 million tons to the first payments area [socialist countries] and 11.8 million tons to the second payments area [capitalist countries]. Compared to the same period of the previous year the exports have increased in the former case by 52.0 percent and in the latter case by 61.6 percent.

Between January and October of 1982 production of brown coal totaled 20.3 million tons, in other words 15.4 percent more than during the same period of last year.

The mining of copper ore is best illustrated by data about production of electrolite copper. During the same 10 months it was 285,400 tons, more (by 4.2 percent) than in the same period of last year, more also (by 3.5 percent) than between January and October of 1979, that is before the crisis.

There were 4.1 million tons of sulphur produced (when calculated into 100 percent), that is also more than in the same period of last year (by 27.5 percent) and more than in 1979 (by 1.2 percent).

To miners we also owe good supply this year of electric power for the economy and for the public at large. We still remember how, during the fourth quarter of last year, power supply was often cut off, due, among other reasons, to poor supply of coal at the electric power stations. During 1982 there were essentially no restrictions on consumers due to lack of power. On the contrary, production of electric energy since July of this year was already higher than in corresponding months of last year (by .7 percent in July, by 1.1 percent in August, by 3.2 percent in September, and by 16 percent in October).

The miners' festival can be not only the occasion for recalling good results in production of hard coal and other minerals. It can also be the occasion for other reflections, such as, for instance, that the full effect of miners' work does not depend solely on themselves.

One such problem is, first of all, not very efficient management of coal and of other minerals. It has been stressed many times, also in our publication, that we are a country of quite wasteful management of coal, of energy and of other raw materials. The last years, unfortunately, have not brought the awaited improvement. In 1981 consumption of primary energy, to be true, fell by 8.2 percent as compared with 1980, but the gross national product fell during this time by 13 percent. This means that energy-intensiveness of the GNP increased by 5.4 percent. This year also, it can be assumed, energy-intensiveness of the GNP will not decrease.

The example of power boilers is well known. Increasing their efficiency by 1 percent, which is attainable even without additional investment (by observing basic parameters and operating procedures), would allow to save 1.2 million tons of hard coal in a year's time. These and similar examples demonstrate emphatically how much must be accomplished in our country so that miners toil, also one already put into coal energy and other products of coal processing, can meet with proper respect and appreciation.

Up till the end of last year the prices of coal and other minerals established in Poland had little to do with reality. They were many times lower than the costs of production. Decisions towards increasing them which were made at the beginning of this year went part way towards making them more realistic. In spite of higher prices the coal industry still operates at a deficit. Surcharges for coal industry during the first three quarters of 1982 came to 46 billion zlotys. In the processing industry, on the other hand, a very favorable financial surplus has been accumulated reaching 750 billions of zlotys. Major portion of this favorable balance is due to the fact that the price of coal and other raw materials continue to be below their prime cost of production. Such a situation does not favor efficient management of coal and energy. It does not induce, for instance, more efficient exploitation of power boilers, not to mention their modernization. These are difficult problems since, all along, one would wish to prevent inflationary pressure, which can be increased by another rise in the price of coal and power. There is only one way to decrease this pressure--a more efficient management of power and of other raw materials. This means better utilization of every ton of coal, copper, sulphur. Only in this way the inflationary spiral can be avoided in the wake of adoption of more realistic prices for means of production.

12207
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VARIANTS OF 1983-85 ECONOMIC PLAN ASSESSED

Warsaw GOSPODARKA PLANOWA No 9, Sep 82 pp 359-364

[Article by Andrzej Karpinski: "Variants of the Plan for the Period from 1983 to 1985"]

[Text] The objective of this article is to describe the results of the work that has been done so far concerning the 3-year plan for 1983-85 and the principles for coping with the main strategic problems of our economy during the period up to 1990.

I. During the work on the 3-year plan the main problems were: how to come out of the crisis, balance the econom-, and recover some freedom of action. These problems were discussed in connection with a wider question: is it at all possible to begin work on the plan for the intermediate period under very uncertain circumstances in which economic processes will be shaped? Nevertheless, such attempt has been made in view of domestic needs and needs resulting from international agreements that concern plans made within the CEMA framework. It is also a natural continuation of the program of coming out of the crisis.

It was understood that the present circumstances must cause some deviations from the traditional process and rules of planning. In particular, it was impossible to fully apply the traditional method of long-term planning based on the assumed needs as the point of departure. Unusually harsh restrictions on development, especially imports, will continue during this decade. It will constitute a special feature, especially for the most immediate period. As a result, the approach based on the assessment of the capabilities was adopted. This approach is also justifiedby the radical change in prices that makes the identification of the needs very difficult. However, the maximal possible fulfillment of social needs, under any, even unfavorable conditions, should be treated as the canon of correct planning, even though the implementation of such planning is not always possible at this time.

However, the work on the plan showed without a doubt that the maximum possible fulfillment of social needs will have to require basic changes in the structure of the economy. These changes have to be initiated immediately. That is why I propose to give the plan the name "The 3-year Plan for Restructuring the Economy". I also propose that the outline of restructuring should constitute the core of the plan.

During the work on the plan, it was understood that in order to design a rational plan and, consequently, to come out of the crisis, three main factors have to be satisfied: a) the sociopolitical situations has to be calmer and society has to develop a more positive attitude toward economic issues; b) the economic reform has to be implemented consistently as a guarantee of the credibility of the intentions of the government concerning changes in the management system; c) the trends in the economic policy have to be redirected.

Concerning the first matter, it was assumed that the sociopolitical situation and the mood of the society will be calmer. Otherwise, the transition to the intermediate planning period would be questionable. On the other hand, the 3-year plan may become a significant factor in integrating the society by giving hope of coming out of current difficulties.

Concerning the second matter, the implementation of the reform, it is in its initial stage and has not shown any tangible results yet. However, a general assumption was made that the reform will show its effectiveness. Much hope is linked to the principle of self-financing. This principle is bound to affect the interest of enterprises in greater effectiveness and in balancing income and expenditures of economic organizations. On this basis very mobilizing principles for improving economic effectiveness were adopted. For example, concerning the relation of the net production to the sold production which reflects the relation of costs and effects, the principle of turning around the present unfavorable trend has been adopted. In practice, this is expressed in the decision to achieve a one-fourth increase in the national product through improving the production structure and the management effectiveness. Even more mobilizing is the decision to achieve in 1990 the production level 40 percent higher than in 1982 with the deliveries of the basic raw and other materials only 19 percent higher. It was assumed that the unitary consumption of raw and other materials will decrease by 14 percent during the period of 8 years, i.e. by 1.9 percent per year on the average. This is not unrealistic, because such a decrease was achieved during the period between 1974 and 1975. However, in the present situation this is a very optimistic assumption.

It was understood that this would be the principle of "grow into". It may become impossible to implement it if the current unfavorable situation ocurring during the first stage of implementing the reform in enterprises continues to persist. This situation has been manifested in some enterprises in the lack of interest in increasing the volume of production while attempting to increase prices for their products instead of lowering them. Thus, if there are delays in implementing the principle of self-financing and limiting subsidies, it will also pose danger to the implementation of one of the key principles adopted in the plan.

Linked to the principles of the reform are the instruments that were designed to steer the implementation of the reform. They constitute an integral part of the plan, and it was assumed that they should be a function of the objectives of the economic policy.

Concerning the third issue, i.e. changes in the economic policy, the main question is that of speeding up structural changes. This is because the improved effectiveness is directly linked to the planned changes in the production structure. Initiating changes in the production structure is seen as an important instrument for increasing the growth rate of production and of the national product. It is hoped that this will, in turn, help to better satisfy social needs, in spite of extremely difficult domestic and international situation. It is assumed that the restructuring will result in bringing down, at least partially, the development barriers caused by the current excessive materials-and-energy intensiveness of our economy. The restructuring should also result in better adaptation of the production structure to the structure of final needs through the increased participation of market and export production and the production for agriculture.

The proexport orientation was given our economy as the basic direction of the changes. The key indicator of the success would be the increase in exports during the next 8 years by over 70 percent (in constant prices).

All this ought to take place together with the introduction of changes in the structure of outlays for development. The resources for the outlays should be gradually shifted to those branches and products that will play the role of "growth locomotives" in our economy. This can take place if the priority status is awarded to them. Of course, this should not mean that other areas fulfilling important social needs but having less favorable ratio of net production will be neglected. The same goes for coproduction and production of supplies. The point is that we should take advantage of opportunities for faster development whenever possible. This will also contribute to faster growth of net production in the general social scale.

Under the conditions of the reform, the restructuring should be implemented mainly through creating import, credits, customs, and tax preferences and differentiated principles for shaping depreciation for the following branches, plants, and products:

--thos ensuring the best utilization of raw and other materials;

--those least dependent on imports from the second payments area countries, i.e. the least affected by imports restrictions;

--those characterized by a relatively high level of net production per production unit taking under consideration the reservations mentioned above;

--those helping spread in the economy more advanced technological methods and new generations of technology.

The plan assigns a very important role to rebuilding small industry and services. It is assumed that at present small forms of production have a better chance of overcoming the materials barrier, because of their access

to local sources of materials. Also, individual production and production of small quantities allows for achieving higher quality per unit of a raw material than mass production. Thus, the share of both small industry and handicrafts should increase from 8 percent in 1982 to 11-12 percent in 1990.

The planned restructuring is also linked to significant shifts planned for the trade structure. They will be directed toward increasing the share of CEMA countries in foreign trade turnovers, even though it is clear that trade with the second payments area cannot be fully replaced by the trade with the first payments area. As the main step toward the development of mutual turnovers, the plan considers developoing industrial cooperation and entering into permanent ties between our economy and economies of other socialistic countries. This will include exploiting by those countries free production capabilities in Polish industry and completing together some halted investments in Poland. It is assumed that as a result, there will be an increase in the share of socialistic countries in all the turnovers from 54 percent in 1980 to 64 percent in 1990 (all the turnovers have been calculated in the same foreign exchange). It should be pointed out that such a share was already achieved in 1982, but with abnormally low level of our turnovers with capitalistic countries, caused by credit and trade restrictions. It is our intention to maintain this level of the share in 1990, when it is expected that the former level of turnovers with capitalistic countries will be rebuilt.

The second direction of changes planned for the foreign trade structure is intensification of our turnovers with the third world countries in cases when it will make foreign exchange and free foreign exchange-type raw materials available to us. This direction is expressed in the increase of the share of those countries in the turnovers from the current 12 percent to 15-17 percent in 1990.

Changes in the structure of the economy are closely linked to the issue of the performance of research and development facilities. A special attention was given in the plan to identifying areas that need the assistance of science in solving ongoing problems. A specific attempt was made in this area and the explored subjects were made an integral part of the plan. As a result, it is expected that the role of the central authority in formulating tasks for scientific research will increase. This would include promotional activities concerning specific subjects that we would like to see developed. On the other hand, limiting purchases of new technology from highly developed nations, even when temporary, is linked to the danger of increasing the technological gap. For this reason, the plan assigns a significant role to activatint the research and development facilities and to increasing inventiveness of our economy. Without them, new technological delays may develop, even in the areas in which during the last decade we accomplished some decrease in the technological gap at considerable cost and by making many efforts.

Thus, the four directions discussed above: implementing the reform, restructuring the economy, redirecting foreign trade, and activating research and development facilities are four main driving forces for coming out of the crisis that are contained in the proposed 3-year plan.

II. We will now present social objectives of the plan. In this area, we have to admit that very harsh limitations on the development had to be considered. As a result, the number of social objectives and priorities concerning the division of investment resources for them were significantly decreased.

The plan proposes to limit the number of priorities to the following three priorities:

1. providing a sufficient amount of food for our society while assuming that the dependence on food imports should decrease;

2. providing maximum possible fulfillment of housing needs and developing linked to them urban and suburban infrastructure;

3. protecting from the effects of the crisis the part of the population with most serious financial problems.

Other needs can be satisfied according to the amount of the resources left over after the priority needs have been satisfied.

The implementation of the tasks directed at providing enough food will be possible only if the whole economy makes a shift toward satisfying the production needs of agriculture. This especially concerns industry. It is assumed that the share of the production for agriculture will increase from 5.6 percent in 1982 to 7-8 percent in 1990. Satisfying the demand for meat will be the most difficult problem, since it is necessary to adjust the meat production to the domestic fodder production. This is because it is necessary to earmark most of the limited income from the export for import of raw materials for the industry. This is the most rational approach. Under these conditions, the consumption of meat per capita would equal about 54 kg in 1985 and 60 kg in 1990. This may require either continuationof meat rationing or further meat price increases combined with compensatory measures for the population.

Concerning housing, the plan emphasizes the increase in the share of cheaper technologies, limits on large plate technology, and development on a large scale of construction based on resources owned by the population and plants. The lan envisions an increase of the share of apartments constituting private property in general resources.

Many discussions concerned methods and ways of implementing the caretaker functions of the state in the present situation and a contradiction between the current scope of the function and both the need for intensifying the activities of the state as an organizer of society-oriented work and the need for stimulating the increase in its efficiency.

This is especially important at present since the national product for distribution will probably be at a lower level than before the crisis due to the necessity of servicing the foreign debt.

In conclusion, the plan assumes that the caretaker function of the state is an indispensable feature of a socialistic state, but the methods of implementing this function should be significantly changed. In the present situation these functions should not be implemented through low prices for basic goods or by including the social function into economic mechanisms of enterprises' functioning but rather through the system of social benefits and other instruments of the state's social policy. This is the direct consequence of the reform and of the necessity of insuring correct premises for the cost-effectiveness on one hand and, on the other hand, it is the condition for utilizing benefits of collective consumption for alleviating the range in incomes. Low cost of services of the higher order (state-sponsored vacations, shows, movies, etc.) does not cover the expense, but only the wealthiest groups of population take advantage of them.

This shows that the scope of the caretaker functions of the state should be limited to the groups of population that really require social protection of the state.

It is also assumed that the principle of wages according to quantity and quality of work will be strengthened and the role of wages in the whole of the population's income will increase. This will signify the return to the socialistic principle of division according to quantity and quality as the main incentives factor.

This is also a reaction to premature, considering the level of the work efficiency, introduction of some forms of division according to the needs that weakened the incentives system.

The social objectives of the plan could be stretched after 1985, when the situation improves. It is believed that the problem of the degradation of the natural environment requires the most immediate attention in view of the scale of ecological threat and the sensitive public opinion.

III. We will now describe the strategic choices that will have to be made as the work on the plan continues. According to the planning bill, variants were made based on seven areas. Five of the areas are directly linked to the macroeconomic policy. Two other concern the issue of territorial development.

The first subject involves scenarios for further development of the situation and linked to them macroproportion variants.

Three scenarios were developed for developing foreign trade and conditions for the exchange with capitalistic countries and especially creditor countries.

The intermediate variant is proposed for the basis of the plan. The variant assumes gradual normalizing of the situation. A less advantageous variant would not be a proper basis for a rational plan for the period of 3 years. On the other hand, a more advantageous variant making very optimistic assumptions would collide with the need for realistic projections that are especially important in this difficult time.

These assumptions give us a chance of achieving in 1983-1985 a 15 percent increase in the industrial production, assuming that the decrease in the cost of materials that is discussed above, is obtained. During the period from 1986 to 1990 the increase would approximately equal an additional 22 percent. Thus, during the period of 8 years the increase will equal 40 percent. Basically, this would allow for achieving the highest precrisis level of industrial production as early as 1985, and in 1990 it would equal over 20 percent.

Next to foreign trade, the scale and rate of inflationary processes will be of considerable importance for the scenario of the development of the situation.

The plan assumes that it will not be possible to eliminate those processes completely during the next few years due to many reasons, including the price solutions contained in the reform. On the other hand, we should strive to regain control of those processes. Thus, for the next few years, a policy of moderate and controlled inflation and gradual decrease in its rate are advised. This is contingent on very selective increase in incomes, maximal demand for goods, and widespread anti-inflationary activity. It is especially necessary to protect from the inflationary impact the part of the population that is in the most difficult financial situation.

The second strategic choice in the framework of the most probable variant of the foreign trade turnovers is the proportion of consumption to accumulation, and especially net investments, in the division of the national income. There was a considerable difference of opinion among experts concerning this matter, ranging from the view that it is necessary to bring back the investment level even at the expense of consumption to the view that our investment level is still too high considering the depth of the crisis.

Concerning this, the following variants were discussed: maximal increase of consumption at the expense of investments, protection of consumption, combination of the consumption increase at a rate that is possible to achieve with the present investments level, both favoring investments and ensuring the elimination of the threat of depreciation of fixed assets, but at the expense of lower consumption level than the level discussed above.

In conclusion, the plan proposes adopting the protection of consumption variant. This variant gives us a chance of increasing the consumption fund in 1990, as compared with 1982 by approximately about 27 percent. This would allow for faster achievement of the precrisis consumption level, i.e. the rebuilding of the precrisis consumption level combined

with a different consumption structure. However, we should remember that the pre-1980 consumption level was achieved partially by borrowing from other countries, even with the 6-day work week. Thus, to accomplish this objective, the net investments would have to equal in 1990 about 95 percent of their 1982 amount. The gross investments will be about 15 percent higher due to faster growth of the depreciation fund. However, it is necessary not to allow for the depreciation of fixed assets in some areas, since it would have a negative impact during the 1990s. This includes production sectors in which possible investment outlays now under evaluation would constitute 95 percent of the depreciation fund.

The third subject of a strategic choice is the proportion of collective consumption to individual consumption. Based on the consumption variant shown above, three following possibilities are considered:

1. the preference for individual consumption;
2. the preference for collective consumption combined;
3. more evenhanded growth of both individual and collective consumption.

The adoption of the evenhanded growth variant as a basis for the 3-year plan is proposed. It would mean that between 1982 and 1990 consumption based on individual income would increase 27 percent, and other consumption would increase slightly more (35 percent).

The next strategic choice is the choice of priorities in budget expenditures. Three following variants were considered: 1) the priority status for education, 2) the priority status for health and culture, 3) more evenhanded increase in expenditures for education and health and culture.

The plan proposes adoption of priority status for health and culture. This means that in the course of 3 years (1983-1985) the budget expenditures for sociocultural facilities would increase 27 percent, expenditures for health would increase 31 percent, and for culture, especially for underinvested cultural objectives, they will grow slightly faster.

The next strategic choice is the division of outlays into investments directions. Due to the reform, the choice is really limited to central investments and those implemented on the basis of subsidies coming from the central investments of the voivodship authorities. Outlays of enterprises and the population can only be estimated because of the reform. With this qualification, the following three variants of dividing the investment resources were analyzed:

1. so called "production" variant favoring the fulfillment of production needs; in the framework of this variant it would be possible to earmark for the food complex 30 percent of all the outlays, but at the expense of the housing complex;

2. so called "social" variant, favoring the whole sphere of social consumption, but mainly the housing complex; this variant would allow for appropriation of 30 percent of all the outlays for the housing complex, but only 28 percent of all outlays would go to the food complex;

3. so called "housing" variant favoring apartment construction; according to this variant 35 percent of outlays would go there,but at the expense of other complexes.

It is proposed that the "social" variant be adopted as the basis of the 3-year plan. This means that 30 percent of the outlays would be earmarked for apartment construction. This variant reconciles the needs of two most favored complexes better than other variants. It is also believed that 30 percent constitutes the maximal share, since its further increase would result in depreciation of fixed assets for production in industry.

The next strategic choice is territorial distribution of investment outlays according to voivodships in the part concerning investments implemented using central subsidies.

Three ideas were examined: the priority status for urban centers at the expense of remaining voivodships, the priority for chosen urban centers and voivodships, and more evenhanded division of outlays among voivodships. It is proposed that the idea favoring priority status for chosen urban centers and voivodships be adopted. This will insure a gradual elimination of the most acutely felt disproportions in the development of voivodships.

It is proposed that the following principles be adopted for dividing investments implemented by the voivodships' authorities on the basis of central subsidies: a) activating chances for regional development by taking advantage of capabilities, resources, and reserves in the development in the interest of both the country's economy and local communities; b) disproportions between production investments and urban and communal investments, and investments in rural areas; c) the range between investments in facilities that determine quality of life for inhabitants of particular areas; d) the current state of involvement in investments that have been initiated.

Lastly, the following outlays were discussed concerning the environmental protection: high priority for protection of waters, priority for protection of waters, and more evenhanded increase of outlays for particular directions of environmental protection. In conclusion, it is proposed that the second variant be adopted since during the next 3 years there will be no economic-technological premises for the high priority variant that will have to be adopted after 1985.

It is very important to present several possible variants for strategic choices and define consequences of adopting one variant in order to implement remaining objectives. It helps us see that strategic decisions concerning allocation of resources are interrelated.

IV. We will now try to determine how the adoption of the principles for the 3-year plan will affect the general economic balance in the country. It should be stated that our plan favors balancing the domestic market, i.e. it deals with the key problems and the most persistent problems concerning directly every citizen.

If the proposed plan is implemented, there is a chance that total balance will be achieved by 1985 concerning monetary income of the population and the supply of goods and services. It would allow for gradual elimination of the so called "inflationary curve", i.e. the excess of money not covered by goods. At the end of 1982 the nominal size of the curve is estimated at 350-400 billion zlotys, i.e. about 12-14 percent of combined deliveries of goods for supplying the market. The elimination of the curve before 1985 would have a significant influence on the market situation. This would be manifested by the surplus of supply of goods and services over the current level of the population's income and rebuilding reserves in trade that were seriously depleted during the period between 1981 and 1982. The chance of eliminating the curve that is contained in the plan depends on maintaining the increase in the population's income within limits that are justified by the increase in both production and supply of goods. Otherwise, the increase in incomes would have to be absorbed by the increase in prices. However, there is a potential threat to eliminating the curve. It is the activation of savings linked to prepayments for cars and apartments when the waiting period for the goods becomes too long. It is estimated that about 50 percent of the savings would increase the inflationary curve.

The elimination of the inflationary curve will not mean that all consumption needs will be satisfied. Also, the curve will be probably eliminated with the consumption level even lower in 1985 than it was in 1980.

There will be gaps in the supply of meat and some goods produced by light industry where the situation will be very difficult. However, as a result, a discernible normalization of the market situation is expected as well as the return to trade without queues and the situation in which purchase of goods will depend on the purchasing power of the client. Money, not the product will be in greatest demand. Conditions should be created for a gradual elimination of the state control. This will help rebuild the role of money.

Thus, the normalization of the market would be the main result of the 3-year plan, and it would be felt by the average citizen. There is a good reason for naming the plan the 3-year plan for recovery of market balance.

The plan also presents a chance for decreasing the current budget deficit that equalled 115 billion zlotys in 1982. However, this could happen only if the system of subsidies is abolished. The results of the continued price increases, which are unavoidable, should not be passed on to the budget. We should continue to look for a chance of full balancing of the budget even before 1985. This would have a significant anti-inflationary effect.

Furthermore, there is a chance of achieving a discernible progress in the situation on the investment front. However, this depends on further regrouping of the investment front in or-er to complete the implementation of highly advanced investments. It is expected that after eliminating

investments that were halted, the state of commitment in unfinished investments, i.e. the size of outlays necessary for completion of initiated investments, would decrease in 1985 to the level of 70-75 percent of the 1982 situation and of 50-55 percent of the 1980 situation. Thus, in 1985 the state of commitment would decrease from 1.3 trillion zlotys (in 1978 prices) to 550 billion zlotys.

However, we will not be able to solve the balance of payments problem by 1985. Actually, our debts will increase, in both capitalistic and socialistic countries. In 1985 they will be higher than in 1982, and the rate of the increase of debts will depend on negotiated deals concerning servicing of foreign debt. However, there are reasons for expecting that the agreement will be reached with creditors, and, as a result of higher income from an increase in the export the servicing of the debt, i.e. the percentages that have to be paid off, will be gradually diminishing. Thus, there is a chance that in 1985 the debt will be down to 30-35 percent of the income from export. This is not much higher than the 25 percent limit considered in banking as an acceptable share of servicing the debt in current income. It would give us a relative increase in freedom of maneuvering concerning import, even though it would be only moderate freedom. Strict limitations on import will continue throughout the decade.

This shows that, if this plan is adopted and implemented, there will be a chance of rebuilding the economic balance in basic areas or, at least, eliminating main causes of imbalance by 1985.

Thus, conditions will be created for normal and balanced development during the period from 1986 and 1990. We can only project regarding that period. The biggest mistake can be made in favor of a plus, because today we are not able to evaluate the effects of the reform that will probably be felt during that period. Integration of the society and growing activization and release of social initiative may give us in 1990 much better results than is currently expected.

V. In conclusion, the following stages of Poland's economic development may be distinguished in long-range planning:

Stage I--this is the period up to the end of 1982. The main economic problem of this period is halting the tendency of decline in the economy.

Stage II--this is the period of the 3-year plan for the years 1983-1985. The main economic issue should be overcoming the crisis, returning to the economic balance, and especially the domestic balance, and returning to orderly and normal economy combined with concluding the introduction of basic principles of profound economic reform by 1985. As a result, the minimum freedom of functioning will be recaptured and we will be able to start restructuring the national economy. This is necessary in order to improve the achieved economic results and the level of satisfying needs of the society.

Stage III--this is the period from 1986 to 1990. The main economic issue of that period will have to be the transition, on the basis of normalized economy, to moderate but balanced development, with special attention given to proexport transition of the economy in order to recapture external balance.

Stage IV--this is the period from 1991 to 1995. The main economic issue of that period will be a transition to both faster and more quality-oriented development of our economy.

Thus, this decade should be the period of the organic work in order to create a basis for more balanced and favorable development for our economy after 1990. This will involve a great effort, thoughtful frugality, and accepting the necessity for sacrifices. This is the condition of having more ambitious social objectives after 1990.

It is also a condition for satisfying needs of our society in the future and for insuring our position in the world markets, i.e. the fate of socialism in our country and our national future.

9959
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ECONOMIST ANALYZES ANTI-MONOPOLY POLICY

Warsaw PRZEGLAD TECHNICZNY in Polish No 22, 7 Nov 82 pp 24-27

[Article by Jan Mujzel: "Anti-Monopoly Policy--Premises and Tools"]

[Text] It has been realized from the beginning of work on its conception that settling the problem of monopolies is a necessary component of the economic reform. So far, practical achievements in this area have been paltry. Beyond the liquidation of organizations whose specialized structures are reborn almost instantly in the form of trusts, and a regulation of the law on prices which authorizes temporary adaptation of regulated prices with excessively profitable monopolies--there really are no regulations. The bill for a special anti-monopoly law is in its beginning phase. This is certainly one of the most acute gaps in the implementation of the reform so far. New legal solutions must certainly result from an overall conception of the anti-monopoly policy, and from its economic premises and tools.

Monopolistic Structures and Their Harmfulness

Market structures, and the degree of their concentration and monopolization, or put another way, their competitiveness, excercise an important influence on every area of enterprise operation and of the economy. The basic areas, i.e., resource allocation and income distribution, are especially affected. The monopolization of structures and the lack of effective protection against the decline of competition can undermine the forces of efficiency and the meaning of the reform. Horizontal connections and market self-regulation can, and must, rationalize and dynamicize the planned economy. But only on the condition that they are not dominated by monopolies and the parasitism characteristic of monopolies.

Tendencies from below toward concentration, limiting competition and toward monopolies, are a natural phenomenon. Their causes in a developed market economy are described in every economics textbook. Even when the role of the market is limited, and when mechanisms of central planning are present, these tendencies do not by any means disappear. On the contrary, they rather become stronger. What is more, they are joined by monopolistic tendencies

from above. The greater the role played by orders-distribution tools, and the more developed the structures of central planning corresponding to those tools are, the stronger those monopolistic tendencies are.

Our present structures are the result of many years of the above-mentioned tendencies. These are structures with a high degree of monopolization. In many areas this result has no other justification than that it is a relic of the orders-distribution system and is in the interests of a group of managers. A characteristic feature of these structures is a distinct underdevelopment of independently active small- and medium-sized enterprises against a background of international equalizations. The economic strength of national monopolies and oligopolies is enhanced by the nonconvertibility of the zloty and the weakness, or rather the lack of, competition from imports.

Under such conditions, a broad anti-monopoly policy equipped with effective tools is urgently needed. It must intelligently counteract monopolistic tendencies from above, support pluralism of structures, protect competition, and reduce the negative effects of the existence of monopolies where they cannot be avoided. An especially important, but complicated, problem is the so-called demonopolization in this policy, i.e, doing away with already existing overconcentration of the sources of supply.

A socially rational anti-monopoly policy is a difficult policy, and sometimes controversial policy, due to, among other things, the fact that the influence on the economy by highly concentrated structures is not always uniform as regards efficiency.

On the one hand monopolistic structures give separate enterprises or groups of enterprises control over the market. They make it possible to impose supply-price solutions, which, while maximizing the utility (e.g profit) of the enterprises, contradict the utility of society as a whole. Actions typical of monopolies are detrimental to technical and allocation efficiency. Excessive profits or costs limit the flow of resources and an expansion of supply commensurate with social demand. The lack of the pressure of competition stifles the spirit of enterprise and innovation, and makes it possible to pay socially unjustified costs. In the capitalist market economy excessive costs and waste take place on a large scale in advertising and product differentiation. These are means which set up barriers against access to a branch of the economy, and thus strengthen monopolistic control of the market. In socialized enterprises the danger of cost irrationality is probably greater, because it is increased by social criticism of high profits and by wage pressures. This can lead to unfounded and unfair income differences.

On the other hand, highly concentrated enterprises with monopoly features have the advantages of efficiency. They can:

--bring large-scale utility in its technical aspect, i.e., allow the application of the most profitable arrangements with high and physically indivisible yields;

--bring large-scale utility in its economic aspect, which includes: efficiency of calculation and decisionmaking in large economic systems, (avoiding redundancy, optimal accounting); the ability to conduct and finance research and

development projects which require great effort and outlay with high risk; the ability to effectively expand exports and conduct advantageous import transactions;

--to create market "equilibrium", i.e, to neutralize the power of a monopoly of suppliers with the power of a monopoly of buyers;

--to insure the stability of conventional prices as a consequence of monopoly actions.

The minuses or harmful effects of monopolies are basically universal. With the aid of certain measures they can be softened, even considerably, but not done away with entirely. On the other hand, the good qualities of high concentration are distributed unequally. In some sectors they are of essential importance, in others they are not found at all. Thus, determining the pro and con ratio is a difficult and multidimensional problem. It requires above all very concrete and competent analyses and evaluations, and in many cases cannot be separated from elements of (personal) judgment. The difficulty of drawing conclusions is increased by the fact that many measures of an anti-monopoly policy must depend on limiting the independence of enterprises.

Goals, Measures and Criteria

The goals of the anti-monopoly policy should be:

--overcoming socially undesirable monopolistic and oligopolistic structures which already exist;

--not letting others arise;

--overcoming harmful practices of monopolies, or at least reducing their effects when their existence must be accepted.

But by the criteria of an anti-monopoly policy we usually mean the conditions whose appearance justifies the application of the measures of that policy and makes them necessary. However, criteria cannot be the same for all measures, since measures differ, and in this respect both the harmful effects of monopolization and the desirability of overcoming it are related in many different ways.

The first group is constituted by measures which are to be applied unconditionally, or basically universally. They consist of:

a) all nondirective-type measures, i.e., those which do not constitute a dominant interference in the affairs of an enterprise;

b) legal prohibition of restrictive (monopolistic) agreements affecting price setting and sharing the market. These measures are not controversial, either because they do not conflict with any other requirements of efficiency (subgroup a), or also because they attack phenomena of exceptional and absolute harmfulness (subgroup b).

In the second group we should include directive-type measures, for the application of which a necessary and sufficient condition is a certain organizational feature of the enterprise, namely: "its significant or dominant position." These are: a) legal prohibition of remaining restrictive agreements including conditions of sale and purchase, the quantity of production, assortment specialization and renewal of the product, creating barriers against the entry into the market of other articles; b) legal prohibition of other dishonest practices which are beyond agreements, and which formally should be enumerated, but the meaning of which leads to keeping out or eliminating competitors. A difficult matter, in which arbitrariness cannot be avoided, is the definition here of the "significant or dominant position of the enterprise." The most often applied measurements are precentage shares of the volume of a given market, or of the use of a given group of products. The basis of freeing small and even medium-sized enterprises from integration is aimed at, on the one hand, maximizing economy in relation to means, and on the other, strengthening the position of these enterprises against stronger competitors.

The third group also consists of directive-type conditional measures, with the difference that the content of the conditions here is complex. The significant or dominant positions of the enterprise, as in the second group, must remain a necessary condition. But the sufficient condition should be recognized as the balance of losses and profits which speaks for the application of the measure. The positive effect of protecting competition must be confronted with negative results by limiting the independence of enterprises and by a possible loss of the utility of increased concentration. This group should include: a) the legal right to oppose plans to merge enterprises, the creation of new enterprises, the buying up of enterprises and creation of trusts, b) the legal right to order the division of enterprises and the breakup of trusts. As can be seen, the application of measures from this group combines a difficult procedure with elements of evaluation. The correctness of decisions will thus require knowledge, information and consistent guidance by the goals and priorities of economic policy. In the course of "learning," a gradual perfection of the methodology for gaging the pros and cons, and of the procedure, should follow. With respect to the kind of interference and last year's law on state enterprises, the authorization to order the division of enterprises and the breakup of trusts should certainly be considered especially controversial. However, in existing structures and with present tendencies, this measure seems to be necessary.

The fourth group also includes directive-type conditional measures. This time they are measures of major legal intervention in price formation. Their methodological separateness is based on the confrontation of negative results with social losses of free price setting by monopolies or oligopolies. Identifying those losses is a separate and difficult problem. I consider that they lead to: a) refraining from efficient, well founded use of production capabilities and their expansion, b) an irrational attitude toward prime costs, incompatible with the principle of their minimization, and C) a lack of commitment to innovation. With respect to the degree of arbitrariness, the category of monopoly profit was omitted; monopoly profit is the surplus profit above the so-called standard profit. This does not mean that the three

criteria considered are methodologically simple. In investigation the assumptions of each of them, one cannot avoid remarks, which are becoming of more current importance, about the "learning" process with respect to the previous group of measures. An additional complication is the fact that directive-type interference in price formation is of limited effectiveness. It is impossible to liquidate by these means the nonparametricity of prices caused by monopolistic relations, and the further consequences of that nonparametricity. Regardless of the conditions and criteria, one must take into account in the inventory of tools of an anti-monopoly policy certain products (goods and services) exceptions based on the specific features of certain areas. These are:

--relations with foreign partners, from which the application of all measures of the anti-monopoly policy must be excluded,

--enterprises and other organizational units which benefit from patent rights. In this case the exceptions should be included in the totality of directive-type measures,

--so-called government monopolies established in the majority of areas of the technical infrastructure, and certain others, in which all measures beyond the fourth group affecting price formation should be excluded.

Areas

Theoretical knowledge, and the experience of capitalist and socialist countries (Yugoslavia and Hungary), enable us to determine the main areas of policy and anti-monopoly legislation. They are:

--the organizational structure of markets,

--restrictive practices (understandings and other "dishonest" limitations of competition),

--price fixing.

Market structure. The structure of markets is determined by the creation, expansion, merger (fusion), buying out, division and liquidation of enterprises and of organizations which group them together. This area has a particular significance. First, variability is a natural feature of structures. Second, it is a traditional area of state policy, especially under conditions of the domination of socialized enterprises. Third, acting on structures removes the sources of monopolistic actions. It is thus a primary area, and in this sense the most effective.

Structural policy, which I have emphasized, must include preventive and corrective measures. In the long run preventive measures should predominate, since they are easier and less controversial. On the other hand, in the short run, overcoming the existing excessive concentration, a relic of the traditional system and the result of uncontrolled tendencies in recent months, will require concentration and effort.

Structural policy must be based on overall analyses and cautious evaluations. To a significant degree they will serve to make forecasts and extrapolations. Actions resulting from schematic rules, especially from quantiative ones, can lead here to reductions or losses. A certain range of free transformations does constitute a necessary component and condition of the effectiveness of market forces. Absolute protection of competition can and should be applied in the sectors and systems where concentration does not augur improvement in efficiency. On the other hand, in many other sectors and systems, e.g., in vertical ones, a certain high level of concentration must be tolerated, sometimes encouraged and even protected. An important basis of fusion or buying out can be the solutions of the problem of failing or liquidated enterprises.

The tools of structural policy as a part of anti-monopoly policy must be numerous and varied. In this area an important and perhaps decisive role can and must be played by nondirective type tools.

--balancing the economy and gradual liquidation of all remnants of the supervision-distribution system. This is an important factor both in facilitating the access of other enterprises to the sector, as well as in undermining, or at least weakening, monopolistic tendencies from above. The source of the latter was state control and allocation assignments;

--socializing the supervision of enterprises. In accordance with the law on state enterprises, the transfer of many elements of supervision to supervisory councils with broad composition would lead to an essential change between enterprises and their founding organs. These organs, above all branch ministeries, remain the main center of monopolistic forces from above;

--opening up the economy to the outside world together with free convertibility of the zloty against foreign currency imports. In many markets that would cause a radical undermining of the control of national [Polish] suppliers. I consider that the elements of convertibility can be implemented immediately and gradually expanded;

--an intensification of the creation of new enterprises, which would require the fulfillment of regulative and systems-type conditions. This regards all socioeconomic sectors, including joint enterprises with a share of foreign capital. In the state sector it would be necessary to institute an effective procedure for establishments to acquire the status of enterprises, based on a social climate favorable to this;

--overhauling the banking system in the direction of commercialization of deposit banks and overcoming the present monopolistic policy of the banks toward enterprises. The banks must be enabled to play an active role in the creation of new enterprises;

--development of innovative systems-type solutions and regulatory decisions. The creation and implementation of progressive technologies, especially of new products, is becoming in the modern economy a powerful factor of destabilization of market structures and monopolistic positions;

--the removal of all formal restrictions on access to individual branches and on the object of their activity. On this basis it would be necessary to separate legislatively subsectors and kinds of activity which for social reasons require a monopoly protected by law (e.g. inventions and many subsectors of the technical infrastructure) or licencing (e.g. banking and foreign trade);

--upbringing means, above all the growing prestige of the spirit of enterprise, of creativity, of investing in economic success. The publication of these criteria in the evaluation of managers, and inspirations and decisions with respect to personnel and emoluments based on those evaluations is very important.

Directive tools of state structural policy have been discussed above. Let us recall that they were supposed to include:

--the right to oppose projects of the merger of enterprises, the creation of new enterprises, the buying up of enterprises and the creation of trusts;

--the right to order the division of an interprises and the breakup of a trust.

Restrictive practices. Monopolistic restrictive practices, which limit competition, include many different kinds of actions. They may take the form of formal agreements, but more often of silent conspiracies and blackmail aimed at competitors. They particularly include: the level of prices, division of the market, the quantity of production, assortment specialization and product renewal, the conditions of purchase, conditional sale, and refusal to conclude transactions. The most typical agreements, and those which pose the greatest threats, are those which have to do with prices and sharing the market. Reactions of competitors in product formation and conditions of sale are usually freer and more varied than in the case of prices, which strongly inclines enterprises to an independent policy.

Restrictive practices are supposed to insure control over the market without a full organization monopoly, and eliminate competitors. They are characteristic of oligopolistic structures.

The exercise of these practices is significantly more difficult and less likely, as well as socially of little harm, and sometimes even desirable. A policy of conteracting restrictive practices constitutes the second line of defense of efficiency against monopolies in areas where oligopolistic structures are inevitable.

In combatting restrictive practices a center of gravity must be directive means. In the foregoing Section I postulated a legal prohibition of practices, i.e. recognizing them as generally illegal. Exceptions would be made for small and medium-sized enterprises, relations with foreign partners, for enterprises fulfilling patent rights and for government monopolies, chiefly in many subsectors of the technical infrastructure. The prohibition of restrictive practices would also include trusts and all other groups of enterprises, both

voluntary and compulsory. Agreements for creating trusts, if they brought restrictive practices to the object of their activity, could not be approved. Restrictive activity of trusts which went beyond the agreement would constitute illegal activity and would be subject to prosecution or sanctions.

Upbringing measures can also play an important role in the struggle against restrictive practices. Revealing the social harmfulness of such practices should be made one of the assignments of the economic, education, of society. It would be important for the criticism of these practices to be supported by professional social-political organizations. Enterprises which are proven to have engaged in illegal practices should be publicly criticized. This must be taken into consideration by state evaluation of management personnel.

Price formation. Setting prices is the third line of defense against the harmful effects of monopolies, and should not be abdicated. Regulating organizational structures and combatting restrictive practices do not satisfactorily solve the problem. As I have emphasized, in many subsectors monopolies and oligopolies are inevitable. Even consistent combatting of restrictive practices yields, unfortunately, limited results. First, it includes complete monopolies only to a small degree. Second, a large part of the understandings and extortions would certainly not be discovered and not subjected to sanctions. Third, restrictive practices can often take place without any agreements or understanding, through the mechanism of price leadership, silent coordination, etc., which makes their prosecution, to say the least, problematical.

As in organizational structures, interference in price formation, especially directive interference, requires penetrating analyses and evaluations. This is a controversial regulation, which has both a positive and a negative effect on efficiency. Prices subject to directive-type regulation can lose one of their most important features: flexibility. Moveover, because of methodological barriers directive-type interference cannot overcome the nonparametricity (manipulability) of prices caused by monopolization. As I have emphasized above, at best it can only soften its effect, and then only when it is possible to rework and apply effective principles (formulae) of interference. It can happen, and has happened more than once, that directive regulation, instead of limiting, actually increases the degree of nonparametricity of prices and the harmful effects of a monopoly or oligopoly, which is related to it. The consequences of the nonparametricity of prices, as is well known, are serious. Among other things it puts on the agenda the very reason for existence of self-financing in a complete and efficiency-attractive form.

The principles of directive-type interference in price-information must above all be nonschematic. They must be adapted to the features of a regulated system. We are speaking here primarily of the character of the market structure (complete monopoly or oligopoly, the internal structure of an oligopoly), the link with foreign trade (the prevalence or nonprevalence of significant hard currency exports), and of the way to strengthen imports in convertible currency (a uniform rate ensuring convertibility, or one linked to standard foreign-exchange allowances from exports, or a basic rate

supplemented by the rate and commerical or free-market circulation). Depending on these features, the interference would have to consist of a certain mixture of the government and regulated price. In certain oligopolistic systems it can be desirable to limit interference to one or two enterprises, imitating the mechanism of so-called price guidance. Also, an obligatory price-setting formula, or an accounting base and rules for its actualization, can be different ways to link elements of currency price in foreign trade conditions of equilibrium and of production and sales costs. The decision to apply directive-type interference in a given enterprise or group of enterprises must establish its essential principles.

Economic (nondirective) measures in price formation include above all so-called counterspeculation, or a system of state reserves, and interventive purchases and sales. The justification and realism of using counterspeculation are rare or exceptional.

Price formation finally can and should be influenced by upbringing means: schooling, the media, the inspiration of plant social-political organizations, and also by other channels. However, here more than anywhere else lies the threat of abuse of these measures--when they begin to do more harm than good. Under political pressure prices may fail to fulfill the conditions of equilibrium. And what is even more harmful, instead of profits, they can "produce" higher and nonminimized costs. Reactions to market signals also become sluggish.

Sanctions, Institutional Solutions and Legal Regulation

Directive-type measures of anti-monopoly policy require corresponding sanctions and, of course, legal regulation. Sanctions should consist of injunctions against illegal actions, and of substantial fines and the payment of damages in cases of violation of the law or injunctions. Enterprises, social organizations and citizens should have the right to investigate claims in connection with damages caused by illegal practices. In order to realize the anti-monopoly policy and enforce anti-monopoly legislation it would be necessary to create a special high-ranking institution with broad powers. An important feature of this institution should be its independence from opinion and injunctions, and its socialization, i.e., strong links with authoritative circles and social organizations. Perhaps these conditions would be met by an Anti-monopoly Administration, independent of state administration, whose director would be named by the Sejm. This solution is supported by, among other things, the fact that one of the most important tasks of anti-monopoly policy remains the overcoming of long dominant monopolistic tendencies from above. The inclusion in the activity of this institution of all areas of the policy, including interference in price formation, remains to be discussed. If the powers of the Anti-monopoly Administration were extended to price formation, an essential matter would be to regulate its relation with the Price Administration.

In legal regulation the center of gravity rests on reworking a special anti-monopoly law. It would define the principles and tools of the policy with respect to monopolistic restrictive practices and organizational structure

of markets. In accord with tradition and the existing legal order, the regulation of price formation should be left in the law on prices. Many rules of that law, as of other legal acts, should, however, be adapted to the needs of the anti-monopoly policy.

The creation of good anti-monopoly legislation is a complicated matter. It must embrace many areas and must make use of measures, and procedures and institutions, which correspond to them. An important methodological principle is planning, and even more, applying directive-type measures closely linked with the whole anti-monopoly policy, or even more broadly speaking--with socioeconomic policy. As is indicated by the experience of other countries, anti-monopoly legislation which fits the conditions and needs of a given economy and its economic system, requires time. A method of successive corrections and additions is created gradually.

9970
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TRANSPORTATION VIEWED AS ROADBLOCK TO ECONOMIC RECOVERY

Warsaw ZYCIE WARSZAWY in Polish 8 Dec 82 pp 1, 2

> [Text] As soon as industrial production began to recoup itself, transportation is becoming a barrier which more and more limits the progress of the economy.

At the same time it so happens that because of fuel limitations, the shortage of truck and spare parts in motor transport, the shifting much of the freight back to railroad transport is impeded by a marked technical paralysis and cadre shortcomings in the PKP [Polish State Railroads].

Decisions in these matters are being initiated with great difficulty. Awareness of the need for energetic action is already in the mind of managers of our economy, but there always arises the question of how and where can one economize means from what is, after all a limited quota, to which difficulties concerned with adjustment of systems-related matters should be added.

Thus, for example, as a government press spokesman informed us, measures were taken to improve the work of railroad transport in 1983-1985. However, in the first year of this 3-year period everything actually will proceed by its own momentum, and only in the subsequent 2 years one can count on more radical progress in strengthening the fundamentals of railroad transport as well as its modernization or rather the overhaul of its rolling stock.

Still, however, even within framework of the decision made by the Government Presidium there should yet take place an interdepartmental adjustment concerning such matters of paramount importance as the financing system, the problem of manpower and that of investment. We know that we are on the horns of a dilemma, but we cannot delay decisions that anyway must be made, for otherwise we should reckon with disturbances of the flow of raw materials, and semi-finished and finished products.

In 1983 no sudden increase in transportation of passengers is expected. On the PKP an increase may occur up to 1,120 million persons, that is of 20 million passengers. On the other hand, the PKS [State Motor Transport] forecasts a further decrease in transportation by about 25 million passengers, for there are simply no means to transport them. New deliveries of the vehicle fleet do not cover losses from the scrapping of old units, and many vehicles are kept only on file for there are no tires and spare parts for them.

The functioning of the transport will be decided to a great extent by the efforts made to improve its technical base. For otherwise, the disarray in the transport system threatens with dire consequences. Hence, a radical improvement of the technical base, especially of the rolling stock and roads for vehicles and railroads, is indispensable.

Also for this reason, not a new investment but broadly-conceived overhaul of the rolling stock and permanent way, as well as electrification of the basic network of the PKP, are principal ways for the rescue of railroads. It is expected that measures undertaken in these areas should counteract the worsening situation. There still remains a question: Where can we expect improvement? In order to maintain the railroad network in a state that guarantees the punctuality and safety of traffic, it is necessary to replace annually 2,400-2,500 km of rails. In the current year the replacement will comprise 2,300 km, and in the next year it is scheduled 2,400 km. Thus there is a certain progress, but the backlog for the previous years amounts, for example, to about 6,000 km of line tracks.

On the roads there should be also repairs annually for about 2,400 km of arterial roads. This year it will be possible to repair 2,200 km and in the next year 2,350 km of macadam roads are being scheduled. However, the old backlog remains. A certain progress will take place in the repair of railroad cars. For 69,600 units will be repaired, if in the current year then next year it will be 74,400. Deliveries of new rolling stock are more than modest, except for the announced delivery of 500 box cars. In the current year the PKP received 70 such cars. On the other hand, deliveries of passenger cars will hardly equalize the scraping of old cars.

We can also speak of a gradual restoration of the pace of electrification of the PKP. In the present year it is expected to comprise 316 km of the railroad network, and the plan for the next year envisages 343 km, whereas until the beginning of the 1990's there should be electrified the entire basic network of the PKP. This will require an increase of the annual pace of this process to 500 km a year, beginning from 1984. Thus, if the economy wants to have a more or less efficient transport, it should, it must make an effort permitting its efficient maintenance.

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CONDITIONS NECESSARY FOR MICROHYDROELECTRIC PLANTS

Bucharest ERA SOCIALISTA in Romanian No 14, 20 Jul 82 pp 12-14

/Article by Romulus Sfichi: "Microhydroelectric Plants: More Intensive Use of the Power Potential"/

/Text/ In connection with the great problems facing contemporary power engineering, the party's and state's conception of this subject is based on the necessity of intensive development and the most efficient management of all power resources on behalf of the all-around progress of the economy, further growth of socialist wealth and consequent improvement of the entire people's material and cultural living standard. This aim of Romania's energy policy, pointed out by Nicolae Ceausescu at the Expanded Plenum of the RCP Central Committee in June 1982, reflects constant and profound concern for the best possible solution to one of the basic problems of social and economic development under the conditions of the worldwide energy and raw material crisis.

In the Directive-Program for Research and Development in the Field of Energy for the 1981-1990 Period and Main Objectives up to the Year 2000, approved by the 12th Party Congress (a program providing for development of energy resources, expansion and improvement of the national electric power system, and further reduction of energy consumption in all activities so that Romania will become energy-independent by the end of this decade), major emphasis is placed upon more intensive and more efficient use of the water-power potential. In this connection it is highly important to exploit the water-power micropotential by installing microhydroelectric plants on small and medium rivers.

Pursuant to the decision of the Plenum of the RCP Central Committee in March 1982 on implementation of the power production program in the 1981-1985 Five-Year Plan and development of the national power base up to 1990, at least 525 microhydroelectric plants are to be installed by the end of 1985 and over 1,500 of them are to be constructed by the end of this decade. In view of tradition as well as the current requirements for planning, designing, building, operating and maintaining the plants, a number of important problems have arisen in connection with establishing a uniform strategic and technical-economic policy for purposes of optimal exploitation of Romania's water-power potential.

From Tradition to the Current Requirements

The use of water power on Romanian territory dates from ancient times. Studies of the use of the water wheel prove that it appeared in Dacia before the coming of the Romans. A hydraulic construction known as the "mill wheel" or the "bucket" and used for energy purposes is interesting in this respect. That turbine wheel, also called the "Wallachian wheel," was widespread throughout Romanian territory and especially in sub-Carpathian Oltenia, the Banat and Wallachia, where it can still be seen today driving mills, fulling machines, saws or other traditional rural small-industry installations.

Water wheels were widespread in the Daco-Roman period. They were used especially in mills and accordingly played an important part in processing the wealth of bread grains Dacia possessed. Moreover the medieval documents often mention the use of hydraulic wheels in Oltenia, Wallachia and Moldavia and in the Banat and Transylvania as well, as they came to be increasingly used to power installations for processing ores, wood, textiles and wool.

The need of energy increased with the development of industrial production, and the number of small water-power installations also increased. In 1938 for example, 50,000 small water-power installations of various kinds were in operation on Romanian territory, mainly those powering mills, stamp mills, scutching machines and sawmills (saws). Use of electric power contributed considerably to the qualitative leap in the use of hydraulic power and brought about the development of the hydroelectric plants equipped with hydraulic turbines. The number of hydroelectric plants built in Romania up to the eve of World War II reached 128 and totaled about 55 megawatts. Hydraulic generator sets for those plants, of limited unit capacities, were imported because in that period Romanian industry was too underdeveloped to make them.

The concern of such famous Romanian scientists as Dimitrie Leonida, Dorin Pavel, Aurel Barglazan et al. and their desire to raise the nation's developmental level led them to make important studies of the possibilities of using energy from the various watercourses. But it was impossible to apply those ideas and studies until the years of socialist construction.

At the start of the electrification program it was planned to install microhydroelectric plants while constructing intensive networks of large electric power plants, while from 1950 until recently the general trend was to enhance the capacity of the power system by building thermoelectric and hydroelectric power plants of increasingly high capacities. Under the circumstances microhydroelectric plants equipped with hydraulic microturbines of low and very low capacities were considered uneconomic and theur construction was gradually abandoned. What is more, once the electric networks for transmission and distribution were developed, most of the existing small water-power installations were gradually abandoned and replaced by electric-motor drives attached to the network of the national power system.

The present worldwide energy crisis, the progressive exhaustion of the traditional fuels and the aggravated rise of their prices call for use of all available energy resources including the secondary ones. Use of the low and very low-capacity hydraulic resources has made construction of microhydroelectric plants

urgent. But such plants, being equipped with hydraulic microturbines and being intended to exploit even the small watercourses, present a number of special problems in connection with their economic effectiveness and the need of using simple construction methods for quite difficult operating conditions that differ widely from one microhydroelectric plant to another.

Once the idea of small water-power installations was resumed, a concerted effort was made to inventory the nation's water-power micropotential, to evaluate the construction methods, and to draft some standard designs. Moreover there are effective installations for microhydroelectric plants that are based on a very wide variety of construction methods, from artisan construction by private persons in the mountain and foothill areas and reactivation of old installations abandoned in traditional rural small industry to construction of microhydroelectric plants of modern design and operating either independently or connected to the network of the national power system. Similarly, very different types of small hydraulic units are placed in operation, from traditional hydraulic whhels to the modern microturbines manufactured by the machine building industry.

Some prestigious research and design institutes (Bucharest ISPH /Hydroelectric Power Studies and Design Institute/, Resita CCSITEH /expansion unknown/ et al.) have already contributed to these results, as well as some ingenious builders of the people, while both machine building enterprises (Resita ICM /Construction and Installations Enterprise/, Timisoara Electromotor, Reghin IUPS /Enterprise for Equipment and Spare Parts/ et al.) and workshops of artisans or of the various enterprises are contributing to the construction properly speaking of small hydraulic units. The activated facilities also have a wide range of capacities, from only a few kilowatts to several megawatts.

Exploitation of the water-power micropotential is favored by the large number of watercourses flowing throughout Romania, and it cannot be left to chance. I think a uniform technical-economic and construction policy is necessary in this field, so that the capacities for design, construction and installation of the various types of microhydroelectric plants will be further developed according to it.

In view of the broad front of construction planning on which construction of the microhydroelectric plants first began, the measures that are adopted must now be reconsidered and reappraised in order to rationalize the way we exploit the small waterfalls and discharges of the dense water-power network that Romania has. Traditional results of use of the water-power micropotential do not and cannot meet the present requirements of efficiency and economy.

Need of Diversified Technical-Economic Measures

I do not think the vast effort to build and install the microhydroelectric plants was well enough preparaed, especially in regard to investigation and substantiation of the measures to be taken, when we lack sufficient experience in that field outside of traditional experience. Construction of microhydroelectric plants differs in some respects from that of hydroelectric power plants and especially in design and construction of the small hydraulic units, whereas so far any kind of construction to exploit the water-power micropotential has been encouraged.

Accordingly, I feel the previous results must be correlated and analyzed critically in order to determine the best methods and procedures to follow from now on, for there are many controversial points about the way Romania's water-power micropotential is now being exploited that still persist, and the specialists are not yet agreed on the very design of the installations. Moreover there is a tendency to simplify the methods of building the microhydroelectric plants without considering the provisions of the standards in effect, which could be modified if necessary to reduce the investments. And there is also a tendency to build the plants according to certain designs that make them resemble the low or even medium-capacity hydroelectric power plants.

Experience with design and construction indicates that installation of these capacities must be treated differently according to the importance of the hydraulic engineering constructions. For example, the whole range of possible contruction simplifications can be applied in reactivating old, abandoned, low-capacity installations, which ordinarily present no problem of converting hydraulic energy to electric power but only to mechanical energy, especially since those microhydroelectric plants are operated by permanent personnel who service both the operating equipment (mills, forestry saws, scutching machines etc.) and the microhydroelectric power installation.

Simplified construction methods may also be used for microhydroelectric plants with low capacities up to 100 kilowatts that are planned to operate independently and usually belong to forestry and forest exploitation organizations, county tourism offices, IAS /State Agricultural Enterprise/ farms, etc. although even those are beginning to present particular problems in connection with regularizing the electric parameters for feeding the various users.

In the case of medium and large microhydroelectric plants (100-3,000 kilowatts), which are usually connected to the network of the national electric power system, the construction simplifications must not impair their reliability or operating safety. In the case of this kind of operation, of which the Ministry of Electric Power is usually the beneficiary, the volume of automation must meet the requirement of operation of such installations without permanent personnel. Design of this category of microhydroelectric plants must strictly conform to the standards in effect, but that does not exclude the need of simplifying the documentation and the conditions for obtaining the approval and agreement of the various authorities, especially the water management organs. This would help to expedite delivery of the technical-economic documentation for such projects, and it would result in better preparation of the technical-material resources for placing the respective plans in operation.

But regardless of the importance of the hydraulic engineering constructions involved in the microhydroelectric power installations, I think they can and should incorporate primarily local material resources (earth, stone, gravel, wood from trees felled by the wind, etc.). Moreover the rural population directly interested in the implementation of such constructions should be solicited for labor or cash contributions (as it was done in the case of rural electrification according to HCM /Decision of the Council of Ministers/ No 299 of 1958), since they will be compensted later by electric power as residents of the villages and communes, according to a procedure to be legislated.

Priorities in Direction of Efforts

All of the foregoing would help to attain good technical-economic indicators for the investments in microhydroelectric plants, because in this case too no one can be indifferent to the amount invested to produce 1 kilowatt-hour or the cost of the same unit of output supplied by a microhydroelectric plant. Decree No 202 of 1981 regulates the ceiling values of these technical-economic indicators in 1980 prices, so that the enterprises, especially those of the Ministry of Electric Power, will emphasize the installation of microhydroelectric plants where indicators below the legislated values can be obtained. But it should be stipulated, and this is essential, that the National Program for Complete Harnessing and Systematization of Romania's Hydrographic Network must be observed in determining the installations for microhydroelectric plants, that is in substantiating the county programs for construction of those capacities.

For the particular conditions of the microhydroelectric plants, I feel the very concept of the "economically feasible water-power potential" should be reconsidered. This would permit better direction and coordination of all activities in the field in accordance with the strategy we are to follow in connection with harnessing the water power micropotential, a strategy fully integrated in the series of big problems presented by the National Program for Improvement of Romania's Hydrographic Basins. Setting the priorities for harnessing and use of all the nation's waters is basic to this, and it is a problem to which even that of building the microhydroelectric plants is clearly secondary.

Of course construction of the plants that do not require expensive improvements, like those that can be built to recover hydraulic energy for certain industrial installations (cooling water for thermoelectric power plants or chemical combines, some industrial water intakes, etc.), could have priority in connection with the foregoing requirements. And thousands of dams with limited falls that are essential to irrigation, fish breeding etc. have discharges that are not used for energy, and their exploitation can make a substantial contribution to the national energy reserve, amounting to hundreds of megawatts.

Priority should also be given to construction of the microhydroelectric plants whose construction is correlated with operations performed to supply small localities with drinking water, to regulate secondary watercourses or streams, to build local embankments to protect villages and communes from floods, to consolidate and protect banks, etc.

Problems of the effect of construction of the plants upon the environment can never be overlooked. I mean, for example, the effects of installing thresholds to divert mountain streams, in order to install microhydroelectric plants, upon mountain fish breeding, deterioration of the soil and the natural environment, and places of rest and recreation.

Requirements for a Uniform Conception

A systematic approach to exploitation of Romania's water-power micropotential with a uniform conception requires standardized design of microhydroelectric plants by means of both standard designs and specifications that will shorten the time of drafting the technical-economic documentation and consequently lower the cost of design work, which is still quite high.

Manufacture of small hydraulic units also presents some problems. They contain not only the microturbines but also the electric generators, including the panels for automation, protection, measurement and control, to say nothing of the other accessories (valves, grids etc.). And now there is another great delay in manufacture of complete fittings to equip the microhydroelectric plants. Actually series production is planned for the hydraulic and electromechancial equipment of the plants, but it is not yet approved. It is planned to test and approve the equipment to be supplied by the machine building industry in the same way as the equipment for the hydroelectric power plants with capacities in the tens and hundreds of megawatts, that is when they are activated. But this creates great difficulties in meeting the planned deadlines for activation of the microhydroelectric plants.

The arguments to justify the said delays are based on the fact that inventorying the nation's water-power micropotential as it has been done would not meet the need to determine the number and technical parameters of the devices for the microhydroelectric plants that are to be built in the future. It is true that optimal operation of of the hydromechanical equipment, especially for such plants, requires precise knowledge of the characteristics of the various installations (discharges and waterfalls). But in the case of the microhydroelectric plants I do not think single-design production of the equipment would be justified, since it would make too great a demand actually not in keeping with the real restrictions placed on exploitation of the water-power micropotential.

Design and manufacture of a variety of standard sizes for complete fittings of small hydraulic units , on the basis of realistic information, can and should lead to series production of that equipment. Classified and made available to the designers and beneficiaries, they will always find their place. And a few simple constructions should be standardized for the future tens of thousands of microturbines, possibly of welded sheet plates, that could be manufactured in small local artisan workshops.

Nor should we overlook the idea of organizing an enterprise in the machine building sector solely for production of small hydraulic units, which would be conducive to its specialization and to improvement of the enterprise personnel in the poduction of that kind of equipment. Moreover adjustment of some equipment in current series production (for example, centrifugal pumps operating in a turbine system) to such small hydraulic units would be one of the ways, now successfully tested, of helping to make a considerable advance in implementing the county programs for exploiting the water-power micropotential.

And last but not least, the need should be stressed of improving and specializing working and technical-engineering personnel so that they can approach the problems of building the microhydroelectric plants competently from many disciplines, which problems are certainly not as simple as they might appear at first glance.

The program to exploit the nation's water-power micropotential is an important point in the party's and state's energy policy. Integrated in the National Program for Complete Harnessing and Systematization of Romania's Hydrographic Network, construction and efficient operation of the microhydroelectric plants require mobilization of technical and organizational skills alongside the efforts

of the rural population. Those are the basic requirements for the assigned objectives to be accomplished within the planned time limits and with high economic effectiveness.

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RELATIONSHIP BETWEEN INDUSTRY, AGRICULTURE

Bucharest ERA SOCIALISTA in Romanian No 14, 20 Jul 82 pp 8-9, 37

/Article by Dr Traian Lazar: "Aspects of the Industrial-Agricultural Balance in the Present Stage"/

/Text/ In pointing out once again the need of a uniform view and conception of the socioeconomic facts, Nicolae Ceausescu said at the close of the proceedings of the Expanded Plenum of the RCP Central Committee of 1-2 June 1982 that "We must stop discussing which sector is more or less important. In the division of labor each sector has its place and its importance." That view also applies to the relationship between industry and agriculture. As we well know, in keeping with the basic goal of the 1981-1985 Five-Year Plan set by the 12th Party Congress, it is a main course of action to secure the proportional and harmonious growth of industry, agricultural and all sectors of the national economy and to achieve an optimal balance among various sectors in order to make the general progress of Romanian society possible.

The national economy as a whole is not a mechanical sum of the material production sectors but a uniform whole wherein the sectors are developed interdependently. The capacity and technical level of industry are reflected in the levels and capacities of the other sectors, which in turn affect the evolution of industry. Therefore it is not a matter of demonstrating the importance of any one of the sectors by contrasting them but of indicating the necessity and methods of balanced development of all of them, in proportion to society's need of them. Society has a great need of industry but an equally great need of agriculture and agricultural products. In its effort to industrialize Romania the party also realizes that agriculture is a vital source of national economic progress due to favorable soil and climatic conditions and the modern technical-material base created through industrial development, as technical progress and modernization of the agricultural production processes are constantly promoted on the permanent basis of socialist industrialization, the volume and effectiveness of the investments are increased, and agricultural science and technologies advance.

In view of these definitive considerations, Nicolae Ceausescu pointed out at the recent Plenum of the RCP Central Committee that agriculture must no longer be underestimated.

The problem of the dialectics and interdependences of agriculture and the other sectors of the national economy calls for analyses and studies of all aspects, technical-organizational, economic-financial, social-cultural and technical-methodological. In this connection it is of no small importance to criticize some conceptions circulated in Romanian economic literature years ago, whereby labor productivity and effectiveness in industry were contrasted with those in agriculture. Agriculture in itself was considered less effective than the non-agricultural activities, and labor productivity and the possibilities of exploiting manpower in agriculture were considered by their nature to be among the lowest. Such comparisons and contrasts were based on general value calculations and the "total" values of the outputs of the respective sectors, with no specific, fundamental analysis of the problem in question or any use of the proper instruments and particular indicators for the purpose. In fact, I consider this one of the drawbacks to the methods of unilateral treatment of economic and social problems, and one that still persists.

In speaking of comparison of productivity, K. Marx said that "It is absurd to speak of the greater or lesser productivity of two different production sectors on the basis of a simple comparison of the values of their goods."* In its specific sense, productivity pertains to the specific nature of the work and indicates the effect or result of given work performed to obtain a given product and a given use value. Therefore there is no use in comparing the productivity of the various specific activities, such as those of the forge, lathe and tractor operators, zootechnicians etc.

This does not mean that there are no reserves for greater labor productivity in every activity, and they must be exploited by particular, suitable ways and means. And it is another thing to reduce complex operations to the simple unit of labor in the objective mechanism of setting the value and prices or to transform concrete labor to abstract labor and individual labor to social labor in order to implement the principles of equity and the economic balance required by the objective laws of social production. Comparison of productivity of sectors or fields is possible and necessary only in the case of the same concrete labor performed in different sectors or units or over different periods of time. It is very important to determine what quantity of ore, steel, chemical fertilizers, machinery or equipment of a given kind, wheat, corn, milk, meat etc. is obtained in a given unit of time with a given labor input, in a given economic unit, under the circumstances in a given area, in a given country, and in a given year, as well as which factors make the differences and how the bad effects can be eliminated.

Performing the various concrete activities and obtaining the assortment of products and services in the optimal structure and volume required by society are objective necessities of national economic development and of man's very existence. Therefore the essential consideration is not to eliminate or restrict the activity of particular sectors vital to the economy because they appear less "productive" according to the general value criterion, but to enhance the effectiveness and labor productivity of the respective fields.

The balance in the field of industrial and agricultural material production is basic to creating and establishing the dynamic balance between industry and agriculture.

*K. Marx, "Theories of Surplus Value," Part II, Political Publishing House, 1960, pp 86-87.

At the Plenum of the Workers Council in February 1982, Nicolae Ceausescu pointed out the importance of implementing the worker-peasant alliance "in material production especially." Industry makes the producer goods for agriculture, and they must be of superior quality and effective from the standpoints of both their producer and the beneficiary in agriculture, who is required to make maximum use of the producer goods and the labor force and to secure the growth of agricultural production and the deliveries to the state reserve.

Despite the progress made in correlating the value expression and the physical expression of the output and services as closely as possible, there are still cases where the results according to the value indicators are not sufficiently substantiated by created values of real use, or where industrial, agricultural and other enterprises, centrals and ministries try to "fulfill" the plan in commodity output, net output and profits by means of prices. For example, in some price documentation costs are exaggerated in order to obtain a higher price level and ultimately greater profits and net output, both of which should be obtained and exceeded by increasing the output volume, sold at stable prices, and by cutting costs of production and circulation. Specific cases are noted in some studies where the value expression (production and delivery prices) of some tractors and agricultural machines are not correlated with their operating capacities in agricultural production.

Meanwhile it is vital for the agricultural producers in both socialist agricultural units and private farms to obtain higher yields of the best possible quality and deliver them promptly to the economy and the public at the prices set.

The material, economic balance between industry and agriculture must also be supported by the balance and correlation between the prices of industrial and agricultural products.

The RCP attaches great importance to use of the price lever in continuous development of relationships between industry and agriculture, between city and village, and between the working class and the cooperative peasantry in order to further strengthen the worker-peasant alliance as the foundation of the Romanian socialist system.

As we know, the party and state administrations took steps to update and improve the correlation, on economic principles, of the production and delivery prices in industry, construction-installation, and transportation of goods and of the production, contracting and procurement prices in agriculture. To this end measures were adopted in 1981 to update and improve the correlation, on economic principles, of the production, contracting and procurement prices in agriculture. These measures raised the prices paid to the agricultural producers by 12 percent. The volume of this price increase in agriculture, amounting to about 10 billion lei, is more than twice that of all the increases made in the entire 1970-1980 period. And then, as we know, the system of bonuses for agricultural products delivered to the state reserve was started in 1982. These bonuses, computed on the basis of the planned output to be delivered to the state reserve in the agricultural year of 1981-1982, amount to more than 15 billion lei, so that the price increases for agricultural products including the production bonuses amount to 29-30 billion lei for the 1970-1982 period. Comparison of the volume of price increases for agricultural products in 1970-1982 with

that of the losses sustained by agriculture from the changed prices of industrial products in the same period reveals an advantage to agricultural producers of about 15 billion lei. But if we are to see the industrial-agricultural balance and the evolution of that balance as accurately as possible, I think we must analyze the existing economic-financial situation in agriculture, which has persisted over the years, namely that a large part of the annual outlays needed to obtain the output of agriculture in its various sectors could not be covered out of the prices received by agriculture, which has shown losses or at least a generally low profitability.

And so when we add the necessary outlays made by agriculture that are not covered by prices to the volume of losses from the changed prices of industrial products, we obtain a sum that is even somewhat greater than the total increase in prices of agricultural products. It is clear that all agricultural units must make further sustained efforts to secure the profitability of agricultural production.

Furthermore it is quite normal to enhance the profitability and economic effectiveness of agriculture by increasing the average yields per hectare and per animal and by lowering production costs. Meanwhile our party and state are trying to set normal and equitable prices for the exchange of products between industry and agriculture. If the balance between the prices of industrial and agricultural products is to be established, it must be accomplished primarily by the system of equal prices, net incomes, profits and profitability in both industry and agriculture alike for equal socially necessary production outlays. Those requirements still call for substantiating studies and general measures to further improve the industrial-agricultural price ratios and the economic-financial balance between those two basic sectors of the national economy.

The industrial-agricultural price ratio and an equitable exchange between city and village are no ordinary problems. They are among the most important ones. Here perhaps more than in any other field and now more than ever, it is impossible to tolerate mistakes for any reason. The producers in industry and, especially today, those in agriculture must be really compensated for their efforts by prices as an economic incentive to increase the volume and quality of their outputs.

The industrial-agricultural balance also requires solution of the problem of evaluating the importance of agricultural labor correctly, as well as correlation of the peasants' social status with that of all workers.

Despite the radical changes that have been made in Romanian society, the opinion still persists that agricultural work is inferior work, that anyone can practice agriculture, and that a job in industry or any other nonagricultural activity is different, and it is a mistaken, simplistic and unrealistic opinion. It must be understood that our times require a modern, intensive and highly productive agriculture. Management and direct implementation of agricultural production processes require sound knowledge of the biological, pedological, agrotechnical, agrochemical and other sciences. Nicolae Ceausescu said,"From that viewpoint I think we have erred for a long time in neglecting improvement of the technical and occupational qualifications of the peasantry in order to obtain a highly skilled agricultural worker in no way inferior in training to an electrician or any other worker."

The economic and sociological literature has often discussed the proportion of the agricultural population in the total employed population but treated it generally, in itself and sometimes apart from the specific facts and necessities of the economy. For example, the declining proportion of the agricultural population in the total population employed in the national economy was considered a distinctive characteristic of "modernization" of the economy and social structure, with emphasis upon "comparisons" with other countries to that effect.

Reflecting the facts and necessities of the Romanian economy, Nicolae Ceausescu's speech at the Expanded Plenum of the RCP Central Committee of 1-2 June indicated that the peasantry will probably still account for at least 20 percent of the employed population in Romania in 1990.

In speaking of the peasantry, the necessity of keeping a large proportion of the employed population in agriculture, and the suitability of redirecting some hands from industry to agriculture, we do not mean a reversion to the traditional peasant but to a worker specializing in agriculture and well versed in the secrets of highly complex and effective modern agricultural production. Of course these complex problems will not be solved automatically and simultaneously. The remuneration system, the level of incomes received according to specific work performed in agriculture and, in general, the whole system of material and moral incentives, social aid etc. will have to play a more definite part in their solution.

As the party and state documents and Party Secretary General Nicolae Ceausescu's speeches indicate, achievement of the necessary balance between industry and agriculture in its evolution and interrelations is no general problem but a very specific and urgent one.

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PROBLEMS IN OIL WELL MAINTENANCE PROGRAM DISCUSSED

Bucharest SCINTEIA in Romanian 12 Nov 82 p 3

/Interview with Engr Victor Murea, deputy minister of petroleum, by Dan Constantin: "More Crude Oil by Reducing the Duration of the Overhauls and Repairs on Wells"; date and place not given; passages enclosed in slantlines printed in boldface/

/Text/ /Question/ Comrade engineer, as deputy minister of petroleum, you also coordinate the activity of well maintenance and repair. From the remarks of SCINTEIA's reporters in the field, it follows that a large number of wells await the performance of overhaul or repair work. Is this just a temporary situation?

/Answer/ In order to achieve the production of crude oil planned for this year, /we have a stock of about 12,000 wells/. In order to produce at maximum potential, each well is passed through various maintenance operations that are performed in conformity with a program individualized according to fields. In order to do this work, which involves, in particular, the maintenance of the underground and surface equipment, /the stoppage of one-tenth of the existing stock of wells is planned/. The statistical data show, however, that, at present, /13 percent of the wells are stopped for overhaul and repair work/. This unsuitable situation is causing a loss of production, with direct repercussions on the fulfillment of the plan for crude-oil extraction in the ministry as a whole.

/Question/ What are the causes of this unsuitable situation?

/Answer/ They are /of a technological nature/, due to the extraction conditions in the old fields, /but especially of an organizational nature/, including here both the shortcomings in the oil-industry workers' own activity and the incomplete supply of installations and materials needed for the well-overhaul operations. This year, in the old fields in operation, inflows of salt water and sand have appeared more frequently than in the previous period. These operating conditions necessitate a suitable quality of the equipment that would resist the aggressiveness of the salt water in particular. Nevertheless, the quality of the liners and pistons on the bottom pumps has fallen, instead of improving. The service life of the pumps has fallen from an average of 45 days in 1981 to 25 days this year, which has necessitated the doubling of the number of overhauls for changing the pumps. Likewise, the unsuitable quality of the tubing has d to the decline of the outputs of the pumps and to the stoppage of wells. Consequently, the volume of the operations required has increased beyond the capacity of the overhaul crews. The statistical data show that, in the last period, 150-200 wells per day awaited the changing of the pumps, and another

200 wells required various repairs on the underground and surface equipment. This stock of wells should produce 250-300 tons of crude oil per day.

To these causes are added the deficiencies in our activity, connected particularly with /the insufficient concern for recruiting and training the workers needed for increasing the number of overhaul and repair crews/. In addition, the still faulty organization of the maintenance and repair on the winches and model IC-5 installations (basic equipment in the well-overhaul activity), the incomplete supply of tools and materials for the crews, the lack of access roads that limits mobility in the well-yards, the indiscipline that still exists, and the poor quality of work are still causing too much well-stoppage time.

/Question/ The causes are thus known precisely. What steps are being taken to eliminate them, so that, in the shortest possible time, a turnabout is produced in this sector of activity, a turnabout absolutely necessary for increasing the production of crude oil?

/Answer/ There was established recently a detailed program--in whose preparation specialists within our ministry and in the sector of machine building, the trusts and the oilfields participated--meant to provide for the matter of /keeping the well stoppage within normal limits/. Among the provisions of the program, I mention the measures that involve /the improvement of the well-operating technologies/ through the utilization of antiblocking filters of better materials in the Braila and Cartojani oilfields; fixation of the overflow with sand and Alorex- and Dinox-type resins at the Ciuresti, Ticleni and Videle oilfields; and the transition to gas-lift operation of the wells on the Craiova, Mosoaia and Timisoara structures. A radical improvement in the overhaul and repair activity depends directly on /raising the quality of the implements and equipment/ of the wells and on /regularity in delivering them/. Consequently, the program establishes the tasks that devolve upon the suppliers of liners and pistons for the underground pumps, tubing, rods, V-belts and so on. I must note the fact that the Machine Enterprise in Cimpina has begun to deliver liners of centrifuged cast iron, which have a service life 3 times longer, and will soon provide an increase in the production of liners of chrome and nitrided steel. At the same time, the Jilava Combine for Rubber Technical Articles is now producing V-belts of very good quality. We further require /more substantial help from the metallurgical units/ for raising the quality of the tubing and the threading, as well as for introducing into manufacture the small-diameter drill rods needed for the well repairs.

/Question/ You mentioned the shortcomings existing within the petroleum units with regard to the organization of the maintenance activity. It is clear that the application of the measures for eliminating these shortcomings can have an immediate effect on the growth of the production of crude oil. How is action being taken in this regard?

/Answer/ We always have these measures in mind and I must note the fact that /the strengthening of the order and discipline in the activity of the overhaul crews/ at the Videle, Timisoara and Cartojani oilfields had an immediate effect on the overfulfillment of the plan provisions in these units. The attention devoted to /the recruitment and training of personnel/ in the last period, an action supported by the county party committees that have petroleum units on the respective territory, is permitting /the creation of 22 new crews by the end of the year/. In recent months,

in order to improve the supply of materials and tools for the overhaul crews, /the reconditioning and reuse of the pistons and (lainere)/ have been undertaken in our units, and in order to recondition the tubing, specialized shops that recondition 45,000-50,000 meters of tubing per month have been set up at 12 oilfields.

The work program made up for each particular well and sector must, through the application of the prescribed measures, lead to /the complete reduction of the number of wells that await overhauls or repairs by the end of the year/, the shortening of the well-stoppage time and the growth of the quality of the work, so that accidental stoppages no longer reduce the daily production of crude oil.

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